EUROPE'S BUSINESS NEWSPAPER

# FINANCIAL TIMES

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| Bahrain | Din0.700 | Israel | Shk6.50 | Philippines | Peso40 |
| Belgium | BFr60 | Italy | L2000 | Poland | Zl9,000 |
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MANAGEMENT
Quality beyond the shop floor
Page 11

## World News

### Germany to cut public spending by DM30bn

The German government is planning public spending cuts of about DM30bn ($19.8bn) next year, including elimination of certain tax allowances, in an attempt to keep the budget deficit under control. The Finance Ministry said yesterday that the measures represented a "signal to the financial markets" that the government was serious about making budgetary savings to help finance the rising cost of German unity. Page 16

**Anti-Mafia moves**
The Italian government has introduced a wide-ranging package of legislation aimed at curbing the Mafia in response to growing public anxiety about organised crime. Page 2

**Gorbachev meeting**
Soviet President Mikhail Gorbachev last night met Mr Boris Yeltsin, the Russian president, for their first peace talks since a damaging public rift over economic reform last month. Page 16

**Militia quits Beirut**
Militiamen of Lebanon's most powerful Christian group flattened barricades along the Green Line last night, packed weapons into trucks, lifted mines from roads and left Beirut. Page 4

**Paris student march**
Protests by French secondary school students are expected to reach a new climax today with a massive march through Paris. Page 2

**Aid bids in Tokyo**
A number of foreign leaders in Tokyo for Emperor Akihito's enthronement met Japanese government leaders and most asked for money. In Osaka in western Japan, two explosive devices went off outside the residence of the US consul-general but no one was injured.

**Ban on Palestinians**
Israeli defence chiefs said they would bar 2,400 more Palestinians in the occupied territories from entering Israel, following a spate of Arab attacks on Jews. Some 8,000 are already banned indefinitely. Page 4

**Remembrance blaze**
A young man set himself ablaze during London ceremonies to honour British war dead attended by the royal family and political leaders. Police officers put out the flames with their coats.

**Iran navy exercises**
Iran's navy commander announced plans for big war games next month in the Gulf, where an international armada is enforcing United Nations sanctions against Iraq. Rear Admiral Ali Shamkhani said the exercise would be the largest ever held by the Iranian armed forces.

**India holds hijackers**
India will not turn two Burmese hijackers of a Thai jetliner over to Burmese authorities and is considering their request for political asylum.

**London bomb find**
Anti-terrorist police discovered an estimated 50 pounds (22kg) of explosives and detained an unknown number of suspects following a raid in north London. The explosives, other unspecified weapons and documents were found in two parked cars, police said.

**Italian museum win**
A design by Italian architects has been chosen for a museum to house the marble masterpieces of the 2,500-year-old Parthenon temple and other ancient Greek monuments. A 14-member jury of architects and archeologists chose the design by Rome-based architects after studying 438 bids from around the world.

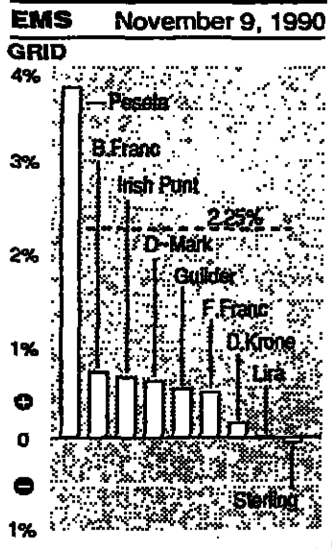
## Business Summary

### Brent Walker raises £30m to halt cash flow problems

Bankers to Brent Walker, troubled UK leisure company, agreed to provide £30m ($58m) in cash to stave off short-term liquidity problems.
The 150 bankers also agreed to rearrange terms of the group's £1.2bn debt so that it can proceed with plans to raise £103.3m via a bond issue later this week. Page 17

EUROPEAN Monetary System: Sterling remained the weakest member of the system last week, trading below its central rate against the D-Mark. The Italian lira showed signs of pressure, with the Bank of Italy intervening every day except Tuesday to support its currency. The French franc also tended to ease against the D-Mark on interest rate factors.

EMS November 9, 1990




*The chart shows the member currencies of the exchange rate mechanism measured against the weakest currency in the EMS's narrow 2.25 per cent fluctuation band. In practice, currencies in the EMS narrow band cannot rise more than 2.25 per cent from the weakest currency in that part of the system. Sterling and the Spanish peseta operate within 6 per cent fluctuation bands.*

SOUTH Korea's slow pace of financial liberalisation and continued restrictions facing foreign financial institutions could prompt US retaliatory action, the US treasury department said. Page 4

NEW YORK: tidal wave of redundancies is sweeping through Wall Street and hitting highly-paid investment bankers who profited mightily from the takeover boom of the 1980s. Page 17

CLAYTON & Dubilier, US leveraged buy-out boutique formed in the late-1970s, plans to open a London office before the end of 1990. Page 17

NATIONALE-Nederlanden: institutional investors meet the Dutch insurer tomorrow to express dissatisfaction with terms of Nat-Ned's planned merger with NMB Postbank. Page 19

TRYGG-Hansa, Swedish insurance company, is expected to announce purchase of half of Gota, parent company of Sweden's fourth-largest bank, sharing ownership with SPP, white-collar workers' pension insurance fund. Page 19

RENTA Inmobiliaria, Spanish construction company controlled by Italian financier Giancarlo Parretti, was to be sold to French investors for about Pta35bn ($373m). Page 19

IBERIA, state-owned Spanish airline, expects heavy losses this year, just three years after returning to profit. Page 19.

NORTHERN Telecom of Canada will have to pay a premium to fund its £1.9bn ($3.68bn) acquisition of STC, UK telecoms equipment manufacturer. It asked four banks to arrange £1.5bn in financing for the takeover. Page 22

## Thatcher braced for leadership challenge

By Ralph Atkins in London

BRITAIN'S ruling Conservative party today faces one of its toughest weeks since 1979 after a weekend in which the possible challenge to prime minister Margaret Thatcher's leadership by Mr Michael Heseltine provoked further internal anxiety and dissent.

With Mr Heseltine still considering whether to contest the leadership, Conservative members of parliament were warned by Mr Norman Lamont, chief secretary to the Treasury, that the party faced defeat at the next election if Conservatives did not get "our act together".

His barbed comments came as more Conservative MPs supported in public the candidacy of Mr Heseltine, adding to the bandwaggon the former cabinet minister's supporters believe is building behind him.

Mr Heseltine, who met senior officials in his constituency of Henley in southern England last night, is expected to watch closely how the momentum behind his campaign increases before Thursday's deadline for nominations. He knows that he is likely to have only one chance at the leadership. Mr Heseltine travels to Germany today for a seminar and returns tomorrow night.

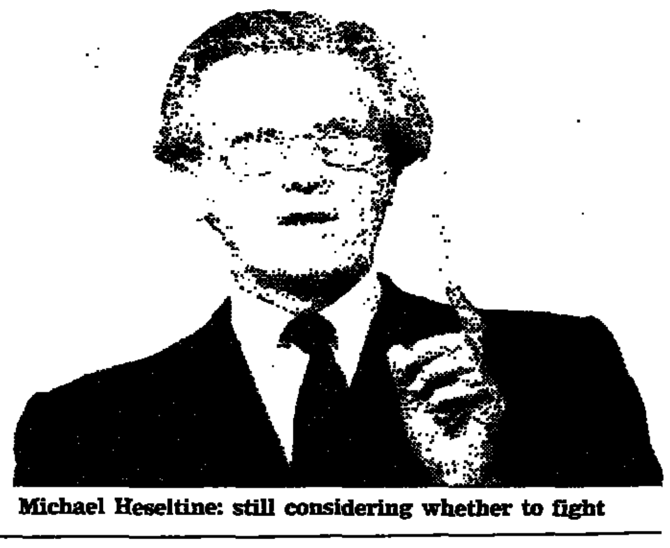
The prime minister faced further differences within her own ranks yesterday when Mr Kenneth Clarke, education secretary, said an education scheme under which parents would be issued with vouchers and allowed to choose their children's schools – hinted at in Mrs Thatcher's conference speech last month – was not on the agenda.

Mr Richard Needham, a minister at the Northern Ireland Office, apologised to Downing Street after a telephone conversation in which, it is claimed, he said "I wish that cow would resign", was intercepted by a paramilitary group in the province and reported in a local newspaper.

Speaking on BBC Television Mr Lamont said the party was "in grave danger" of inflicting heavy wounds on itself. "We have got to unite ourselves as a party or we will not only not win the next election; we won't deserve to win it," he said.

Echoing the deep anxiety in the party hierarchy, Mr Tom King, defence secretary, said on another television's programme that, with the Gulf crisis continuing, the time "could not be worse" for a con

Continued on Page 16
Time urged to pull together, Page 10


Michael Heseltine: still considering whether to fight

## Bank of England to agree terms for European bank

By Peter Norman, Economics Correspondent, in London

MR Robin Leigh-Pemberton, governor of the Bank of England, is prepared to agree to the draft statutes of the proposed European central bank although he will express British reservations about the project.

European Community central bank governors meet in Basle tomorrow in an attempt to finalise the statutes ahead of the December Intergovernmental Conferences (IGC) on political and economic and monetary union in Europe.

The first item on tomorrow's agenda is to determine whether all EC governors will approve the draft. One senior European monetary official said last week that there was "no real controversy left" among the central bankers about principles underpinning the bank.

Mr Karl Otto Pöhl, the Bundesbank president who is also chairman of the EC central bank governors' committee, wants his colleagues to send a unanimous signal of support for the European central bank to EC leaders.

However, because the bank would eventually assume responsibility for monetary policy throughout Europe, any decision by Mr Leigh-Pemberton to agree to the draft will stir political controversy in Britain, especially among those who oppose the loss of sovereignty to EC institutions.

There is already agreement that it should be a powerful, independent, federal organisation, more specifically wedded to the goal of price stability than even the Bundesbank.

However, some important technical details remain on tomorrow's agenda, including:
- the procedure for pooling national reserve holdings in the bank;
- the distribution of power between the bank's executive board and the national central bank governors who would make up its council;
- the operational role left to the national central banks in the system;
- The European bank's exchange rate policy vis-a-vis the dollar and yen; and
- how far it should supervise the financial system in the member states.

The governors will have to decide whether all these points need to be clarified in detail before submitting the statutes to EC leaders for approval.

Mr Leigh-Pemberton, whose decision to sign the Delors report on economic and monetary union last year caused a political furore in Britain, favours greater independence for central banks, including the Bank of England. But he will be careful to make clear in Basle that the British government supports neither the European central bank nor the single currency.

His approach will be that the draft statutes are a contingency exercise for when the EC governments and people decide to set up such a body.

He will also press Britain's case that the hard Ecu parallel currency and a European Monetary Fund (EMF) are the best way of progressing from the current first stage of economic and monetary union to eventual union.

Here he will be at odds with Mr Pöhl, who last week in London rejected the hard Ecu and the EMF as "providing the worst possible recipe for monetary policy in Europe."

Mr Pöhl has been the force behind drawing up the detailed European central bank blueprint. A vital part of his strategy is to make the text of the central bank statutes an integral part of the new EC treaty on economic and monetary union to be decided by the IGC.

This is particularly important because achieving European monetary union could take years. If there is to be an early move to union, Mr Pöhl would favour a core group of countries – Germany, France, Benelux and possibly Denmark and Ireland – irrevocably fixing their exchange rates.

Mr Pöhl's goals conflict with both the EMF proposed by Mr John Major, Britain's Chancellor of the Exchequer, and the vaguely defined "new Community institution," for the beginning of stage two of monetary union envisaged in the communique of last month's Rome summit of EC leaders.

Yesterday, Mr Major renewed his attack, saying the case for a single currency in Europe had not yet been made.

## Uruguay Round threatened by failed farm talks

By William Dullforce in Geneva

THE trade liberalising initiative, the Uruguay Round, which started four years ago, was brought to the verge of collapse over the weekend by the breakdown of international talks on the reform of farm trade.

Negotiators said only changes of policy and fresh instructions this week from Washington and Brussels could resolve the impasse over agriculture which has pitted the European Community against the US and the Cairns Group of 14 farm-exporting nations led by Australia.

The talks on the agricultural components of the General Agreement of Tariffs and Trade (Gatt) were broken off in Geneva on Saturday. The threat to the Gatt talks has compounded concerns about the outlook for the world economy provoked by the Gulf crisis and the rise in oil prices.

Mr Arthur Dunkel, Gatt director-general, will today convene a special meeting of the Trade Negotiations Committee, governing body for the Uruguay Round, at which he will spell out the perilous state of the talks.

He is expected to point out that the talks are blocked in several other areas, such as services, textiles and clothing and tariff reductions, as well as in agriculture. Mr Dunkel will stress that the blame does not lie entirely with the EC position on farm reform. The US has been particularly difficult over liberalisation of trade in services, he will say.

With only three weeks left to the final Uruguay Round meeting in Brussels, when trade ministers are due to complete the talks, the breakdown of agriculture talks presages a hectic week for trade diplomacy between the EC and US.

The issue is almost certain to loom large at a meeting in Washington on Tuesday between US President George Bush, Mr Jacques Delors, president of the EC Commission and Mr Giulio Andreotti, prime minister of Italy which holds the EC presidency.

The agriculture talks were broken off only three days after the EC had tabled its long-delayed proposal to reduce farm subsidies by 30 per cent over 10 years from 1986. The US and the Cairns Group have called for cuts of 90 per cent in export subsidies and 75 per cent in other farm supports over 10 years from 1991-92.

Cairns Group ministers have given the EC until this Thursday to demonstrate its seriousness about negotiating farm reform. On that day, they would reassess their attitude to the whole Uruguay Round, they said. The group comprises Argentina, Australia, Brazil, Canada, Chile, Colombia, Fiji, Hungary, Indonesia, Malaysia, New Zealand, the Philippines, Thailand and Uruguay.

Editorial comment, Page 14

**Mr Clayton Yeutter, US agriculture secretary, is expected to tell European Community ministers this week that the failure to reach agreement on farm trade liberalisation could lead to confrontation among the world's largest producers. Page 16**

## US may delay resolution on Gulf action

By Lionel Barber in Washington

THE US is ready to delay seeking a UN resolution authorising the use of force against Iraq, amid differences within the multinational coalition over whether to launch a military operation to drive Iraqi forces out of Kuwait.

This has emerged following the visit to the Gulf and Europe just completed by Mr James Baker, US secretary of state. It became clear during that visit that the Soviet Union and France are far more ambivalent about offensive action than Britain and the front-line Arab states such as Saudi Arabia and Egypt.

Despite a solid consensus on the need to end Iraq's occupation of Kuwait, there are also differences on the effectiveness of sanctions and the length of time it would take them to work before turning to war, Mr Baker said in Paris before flying home.

These findings – coupled with evidence of misgivings in the US Congress about the prospect of war – reinforce the impression that the US still has to make its case at home and abroad before it can undertake a military operation against Iraq with confidence.

Mr Sam Nunn, the Democrat who chairs the Senate Armed Services Committee, called on Mr Bush last night to justify

Continued on Page 16
Gulf crisis, Page 3; Worst scenario, Page 16

## International airlines force UK to speed up review of policy

By Paul Betts, Aerospace Correspondent, in London

THE British government has been forced to speed up a sweeping review of UK civil aviation policy because of pressure from the US and international airlines to reform existing rules restricting access to London's Heathrow, the world's busiest international passenger airport.

Any change in the Heathrow rules is expected to entail a far broader review of British aviation policy. To this end the government has asked the Civil Aviation Authority to draw up recommendations by January on the controversial issue.

It has also commissioned a consultants' report on the possibility of introducing market mechanism for the distribution of scarce take-off and landing times or "slots" at Heathrow and the other main London airport, Gatwick.

UK and US government officials will hold preliminary talks in London this week, to be followed by more negotiations in Washington later in the month, in an attempt to revise the bilateral agreement on air services between the two countries.

The US is expected to ask the British government this week to allow United Airlines, the largest US carrier, to take over the Heathrow landing rights of Pan American, the financially troubled US airline.

United agreed last month to buy Pan Am's North Atlantic routes to London for $400m. But the rules on landing rights for the London area prohibit new international scheduled airline services at the heavily congested Heathrow.

The US is arguing that United Airlines should be replacing Pan Am at Heathrow and should therefore be granted permission to fly into the airport. It is also worried by the financial repercussions on Pan Am in the event of a lengthy delay and possible collapse of the United deal.

UK government officials insist that under existing regulations, United cannot operate out of Heathrow and like many other international airlines would have to fly to Gatwick.

American Airlines, which has also offered to buy the Pan Am London routes, acquired Trans World Airways' Chicago-Heathrow route earlier this year for $200m but was told it could fly only to Gatwick.

Apart from American Airlines, several other international carriers at present confined to Gatwick are clamouring for rights to fly into Heathrow.

The UK carrier Virgin Atlantic Airways is also keen to operate long-haul services from Heathrow rather than from Gatwick.

The UK is expected to use the negotiations with the US to press its claims for access into the large domestic US airline market for British carriers.

British Airways has long campaigned for the opportunity to operate in the domestic market to generate traffic feed for its transatlantic services.



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**THE MONDAY INTERVIEW**

In the age-old battle between rationalism and art, Giorgetto Giugiaro, the Italian car designer who has turned his hand to items ranging from Parker pens to pasta, puts himself on the side of the artists – but only just
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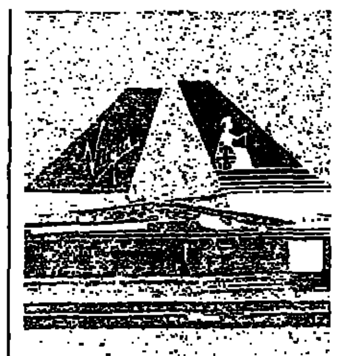
## FT SURVEYS THIS WEEK



**Business Travel**
*See separate section today.*

## INTERNATIONAL NEWS

# Gorbachev and Yeltsin exchange views over economic reform

**By Leyla Boulton in Moscow**

SOVIET President Mikhail Gorbachev last night met Mr Boris Yeltsin, the Russian president, for their first peace talks since their damaging public rift over economic reform last month.

The meeting could herald a long-awaited reconciliation between the men who are respectively the Soviet Union's most powerful and popular politicians. It is widely believed that coherent economic reform and successful negotiations for a new union treaty are impossible without an alliance between the two men.

Mr Nikolai Ryzhkov, the Soviet prime minister whose resignation has been demanded by Mr Yeltsin as a pre-condition for successful reform, was also present at the meeting together with his Russian counterpart, Mr Ivan Silayev.

Underlining the gravity of the economic collapse, the country's two biggest cities, Moscow and Leningrad, considered plans for extending limited rationing to a much wider range of goods. The leadership of the Leningrad city council put the proposal on the agenda for a full session beginning today.

Leningrad provides a good illustration of the need to bring together an all-union reform strategy and the more radical timetable sought by the parliament of the Russian Federation. Radicals in the Leningrad city council say that if the Kremlin and the Russian Federation fail to agree on tough measures to control inflation and strengthen the rouble, they will have to try to implement their own market reforms in isolation.

While the Soviet parliament's "basic directions" for reform allow republics wide scope to implement market reforms, the centre has a crucial role to play in strengthening the rouble and controlling inflation.

Mr Yeltsin last month described the basic directions put together by President Gorbachev as catastrophic. He then went off to a Baltic resort to convalesce from a car crash, leaving the Russian government to try to revise its radical 500-day programme. It is supposed to come up with alterations by Thursday to take into account the Soviet parliament's rejection of the programme and recent price rises which have already invalidated its anti-inflation strategy.

President Gorbachev has meanwhile proceeded with a series of decrees ordering market reforms. But it is clear that economic reform has been in limbo as both Soviet enterprises and western investors have tried to work out who is in charge of the transition to a market economy.

Mr Silayev said recently that Russia had invited President Gorbachev to meet the leaders of the Russian parliament and government in order to resolve differences over economic reform. Preparations for such a meeting were also possibly on yesterday's agenda.

Mr Gorbachev needs the support of the Russian Federation to finalise a union treaty fixing the relations between republics.

# Socialists struggle to adapt

**SPAIN'S ruling Socialist Workers Party (PSOE) ended its 32nd congress on a mixed note in Madrid yesterday – abolishing obligatory membership of the socialist trade union, the UGT, but failing to elect any liberal ministers to a new, larger party executive, writes Peter Bruce.**

The party went a long way towards making its own the social democracy practised by the government and its leader, Prime Minister Felipe Gonzales, who opened the meeting with loud praise for the efficiency of liberal market economies. The congress approved, almost without debate, a motion ending more than a century of obligatory membership for party members of the UGT. The party and union have moved far apart in the last three years over the conservative drift of government economic policy.

But Mr Gonzalez, in the end, was careful not to move ahead of his socialist flock too quickly.

He warned that while "the communist answer has failed, the questions it addressed still exist" and his deliberately obtuse call for a "renovation" of ideas in the party did not translate into a clear victory for free marketeers in the government.

A number of ministers, including Mr Carlos Solchaga, the finance minister, and Mr Javier Solana, the education minister, have been calling for a wider party executive with greater cabinet representation to counterbalance the disciplined ideological party rule of deputy Prime Minister Alfonso Guerra. Although the congress increased the 23-member executive to 31 people, no new ministers were elected. Only one new member, Mr Raimon Obiols, the Catalan socialist leader, has a liberal track record.

Felipe Gonzalez strikes a triumphant pose at his party's congress in Madrid

# Immigrants' law adopted by Rome

**By John Wyles in Rome**

LEGAL immigrants into Italy from outside the European Community are to be guaranteed equality of health care and new educational and housing benefits under a draft law adopted by the government at the weekend.

The proposed legislation is the second pillar to a restrictive immigration policy involving visas and frontier controls which Rome adopted earlier this year to move closer into line with other EC countries and to respond to growing concern about immigration levels.

Racial tensions between the domestic population and North African immigrants have been multiplying. The absence of housing provision has also sparked clashes between immigrants themselves.

Following an amnesty which encouraged illegal immigrants to declare themselves, Mr Claudio Martelli, the deputy prime minister, said at the weekend that 549,000 extra-EC immigrants were now officially resident in Italy. Under the new law, they will have equal rights with Italians to health service treatment while their children should benefit from a more intensive teaching of the Italian language in schools.

The civil protection ministry has been charged with examining all disused public buildings with a view to their conversion into hostels and housing units for homeless immigrants.

According to Mr Martelli, tougher policing of immigration this year has doubled the numbers who have been refused entry at Italy's borders.

# Italy introduces new anti-Mafia laws

**By John Wyles**

THE Italian government has introduced a wide-ranging package of legislation aimed at curbing the Mafia in response to growing public anxiety about organised crime.

Although the coalition led by Mr Giulio Andreotti promised an anti-Mafia drive when it came into office 16 months ago, its action has been largely prompted by a number of outrages over the past two months. These have included the murders of Sicilian magistrates and businessmen.

Eight measures have been wrapped up in a new decree law which comes into force immediately. One of its priorities is to limit the workings of the so-called Gozzini law which has angered public opinion by the ease with which members of the Mafia and terrorists can obtain partial liberty after serving just a few years of their sentences.

For the next five years, such benefits have been suspended for those convicted of mass killings, kidnapping, drug trafficking, association with the Mafia and terrorism. Also, those in custody after being accused of such crimes will not be allowed house arrest.

Maximum prison sentences for those convicted of Mafia crimes are to be increased by between one-third and one-half as will be penalties for those who induce children under the age of 14 to participate in crime. In an attempt to raise police effectiveness, special task forces will be created which will bring together the state police, the carabinieri (the military police) and the Guardia di Finanza, which deals with financial crime.

Among the other measures is a law to give proper protection to those who inform on the Mafia, and an attempt to clamp down on the award of public contracts to companies controlled by organised crime which increases the powers of scrutiny of prefects over the decisions of local authorities.

The government is also expected to issue a decree which aims at discouraging the recycling of illicit drug profits.

# French students prepare for Paris protest march

PROTESTS by French secondary school students, who have put heavy pressure on the government, are expected to reach a new climax today with a massive march through Paris, writes Ian Davidson.

Students are expected to arrive from all over France, after bargaining with local railway officials for cheap return tickets. Some observers expect that the march from the Bastille to the Rond-Point of the Champs-Elysées, not far from the Elysée presidential palace, may attract as many as 300,000 students.

The timing of the students' protests comes at a particularly delicate moment for the government, as the drawn-out parliamentary battle over the 1991 budget is expected to spill over into an opposition censure motion next week. The government is also harassed by widespread hostility from the unions and from the opposition parties to its plan for a new tax to reform the method of financing the social security system.

The government is at a loss how to contain the students' protests, as basically it accepts the legitimacy of their complaints about the dilapidation of school buildings, overcrowding of class-rooms, shortage of teachers and violence on school premises. Expansion, reform and modernisation of the education system is already the government's top priority. The education budget is growing much faster than inflation and will overtake the defence budget for the first time next year.

Even if the government increased the education budget, it could not produce instant answers for the students' complaints. Mr Lionel Jospin, the education minister, is attempting to defuse the protests by seeking negotiations with the students.

But it is not clear that the unofficial student committees have any mandate to engage in negotiations. What is clear, is that the students are enjoying the demonstrations, which have remained remarkably non-violent and been treated with kid gloves by the police.

## WORLD ECONOMIC INDICATORS

FOREIGN EXCHANGE RESERVES (US$m)

| | Sep.'90 | Aug.'90 | Jul.'90 | Sep.'89 |
|---|---|---|---|---|
| US | 49,414 | 48,174 | 47,457 | 39,080 |
| Japan | 68,102 | 68,072 | 67,413 | 79,605 |
| W. Germany | 59,861 | 58,971 | 57,789 | 53,007 |
| France | 29,264 | 26,010 | 25,786 | 22,995 |
| Italy | 66,422 | 66,984 | 65,147 | 44,708 |
| UK | 32,951 | 32,985 | 32,194 | 34,691 |
| Netherlands | 15,877 | 15,834 | 15,558 | 14,772 |

Source: IMF

# Bulgaria's ruling party thrown into turmoil

**By Judy Dempsey in London**

BULGARIA'S ruling Socialist (former communist) party was thrown into turmoil at the weekend following the defection of 17 deputies who have set up their own breakaway party in a move which is likely to add further pressure on Mr Andrei Lukanov, the prime minister, to resign.

Their defection leaves the BSP with 206 seats, or a parliamentary majority of five. The UDF, which is a loose grouping of 13 political movements, and which has 144 of the 400 seats in Parliament, will almost certainly use the splits in the BSP to oust Mr Lukanov from power.

Although Mr Lukanov remains one of the few competent officials to run the government, the UDF believes that the BSP has not gone far enough in dismantling the old communist party apparatus.

The UDF has repeatedly ruled out any coalition, despite calls by Mr Lukanov that he needs its support for economic reforms.

But last week, the UDF launched an attack on the government by saying it would support the reforms if it was given the prime ministership, as well as the defence, interior and foreign policy ministries.

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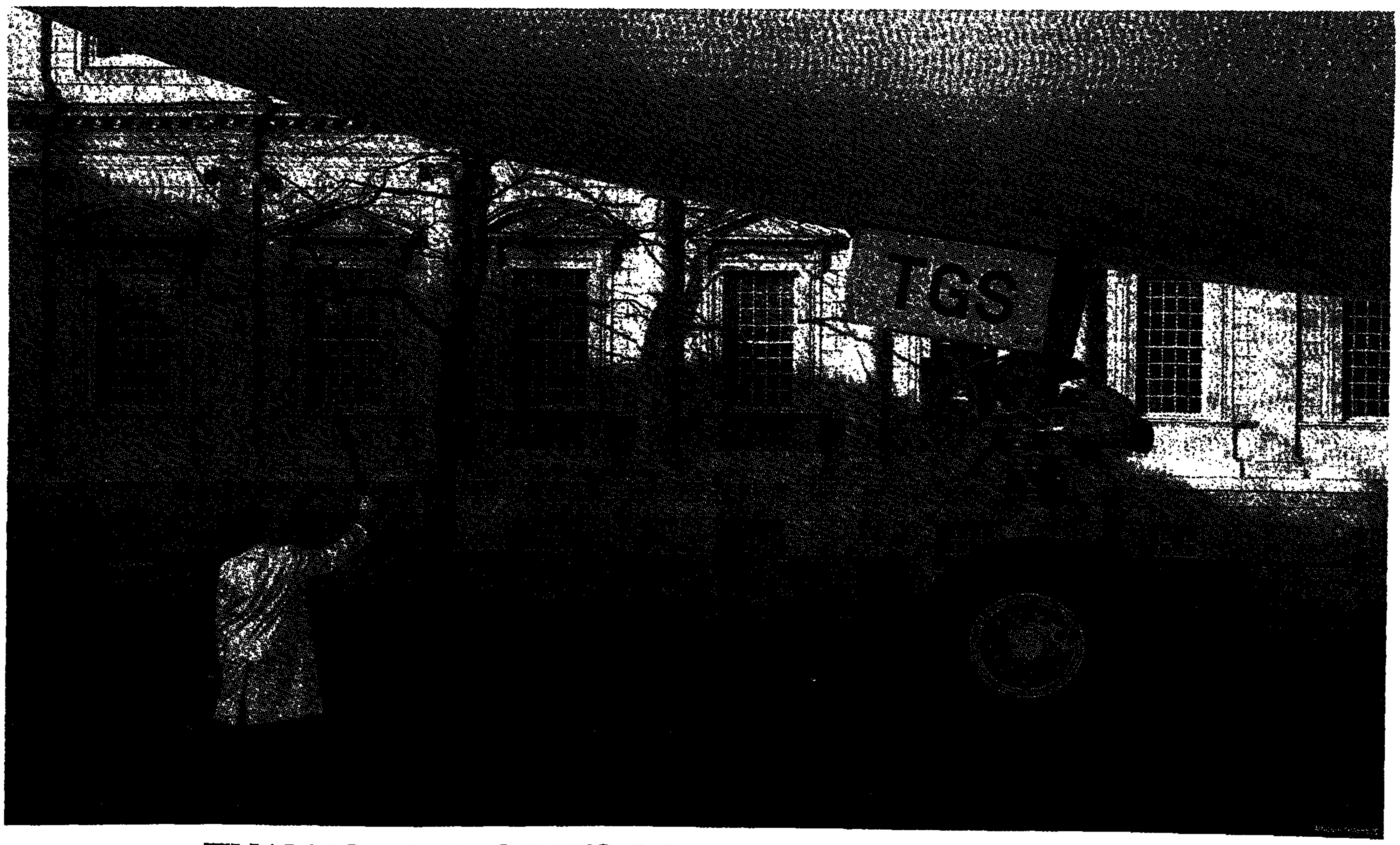


# Britain may boost ground forces in Gulf build-up

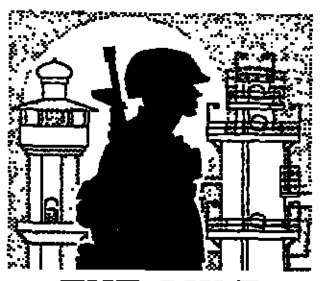
By David White, Defence Correspondent

MR TOM KING, the British defence secretary, said yesterday the UK was considering sending more ground forces to bolster the 16,000 soldiers, sailors and airmen it has already sent to the Gulf.

He also threatened severe retaliation against Iraq if President Saddam Hussein resorted to use of chemical weapons. "It would be the stupidest thing that he could do," he said. It would have "very, very grave consequences indeed for Iraq."

Mr King, who is due to arrive on a three-day visit to Saudi Arabia and the United Arab Emirates today, said one purposes of his visit was to determine what would be the most helpful additional contribution from the UK.

The decision to contemplate extra force deployments follows the announcement last week of large US reinforcements, expected to increase the 230,000-strong US force by up to 200,000.




It is thought that extra British forces might include another regiment of 60 tanks and another battalion equipped with Warrior combat fighting vehicles to join the 7th Armoured Brigade deployed alongside US marines in north-eastern Saudi Arabia.

There has also been speculation Britain might send a third squadron of Tornado GR1 bombers to the region, considered the most useful of the UK aircraft sent to the Gulf.

Officials indicated that a Tornado squadron could be despatched within days, but that an additional ground force would take longer to prepare.

Mr King said yesterday there were already "a lot" of allied aircraft and further British efforts were more likely to concentrate on land forces.

The only thing that might make President Saddam withdraw from Kuwait was "the realisation that he faces the certainty of force," he said.

Britain did not want to see force used, but the allies could not "sit there and do nothing." They had to give Mr Saddam "reasonable time" to leave Kuwait but the Iraqi leader had already used up a lot of that time, he said.

US marines play volleyball as they enjoy a day off during the weekend in the eastern Saudi desert

# Chinese envoy seeks peaceful solution to crisis

By Lamis Andoni in Baghdad and Tony Walker in Amman

QIAN Qichen, the Chinese foreign minister, arrived in Iraq yesterday in an attempt to persuade President Saddam Hussein to withdraw his forces from Kuwait and so avert a war in the Gulf.

Qian, the most senior representative of the five permanent members of the UN Security Council to visit Baghdad since Iraq's seizure of Kuwait, appealed in Amman on Saturday for renewed efforts to "find a peaceful settlement of the crisis".

He said his country could not be rushed into a UN vote authorising the use of force against Iraq.

China has been the most reluctant of the Security Council's permanent members to endorse an offensive by the multinational forces ranged against Mr Saddam.

"Any Security Council approval for military action would need intense consultations as such a matter cannot be easily put to a vote," Qian said.

Iraqi officials want Qian's visit to strengthen the hand of those who advocate a negotiated settlement to the crisis. In particular, they hope China will exercise its veto to block any new resolution authorising an offensive against Iraq.

President Saddam, in an interview with ITN, repeated his desire to link negotiations over the Gulf crisis with the Palestinian issue. Iraq has annexed Kuwait and repeatedly ruled out any pullback, but implicit in its offer of linkage is the withdrawal of Iraqi forces coupled with the withdrawal of Israel from the occupied territories.

"We are ready to enter into a deep dialogue as to the requirements for security in our region," he said when asked if he would withdraw from Kuwait.

"We are confident that those parties will decide serious and deep solutions to all the issues, in the forefront of which will be the Palestinian question."

# PLO to help Palestinians in Kuwait

AN OFFICIAL of the Palestine Liberation Organisation will visit Kuwait for the first time since the Iraqi invasion to try to help the large Palestinian community there, Reuter reports from Tunis.

Mr Yasser Abd Rabbo, PLO executive committee member, will go to Iraq and Kuwait to discuss ways of assisting them. About 350,000 Palestinians used to live in the emirate but tens of thousands have left since the August 2 invasion.

Kuwait's wealthy and enterprising Palestinian community, one of the PLO's main sources of funds, is now nearly destitute and threatened with hunger, PLO officials said. Food supplies have been affected by the international embargo against Iraq and local bank accounts have been frozen.

The Palestinian community in Kuwait had lost money and goods worth \$4bn, a PLO spokesman said. Also affected are residents of the Israeli-occupied territories, who received \$1.25bn a year from relatives in Kuwait.

# EC to launch drive to win hostages' release

By David Buchan in Brussels

THE European Community is today expected to launch a diplomatic drive to persuade Iraq – through third parties – to let UN representatives go to Baghdad to negotiate for the release of western hostages.

EC foreign ministers will make an immediate start to their new strategy of mounting maximum pressure on Iraq to accept UN mediation on the hostages, when they meet with their counterparts from the Arab Maghreb later today in Brussels. At least two Maghreb states – Algeria and Tunisia – are considered sympathetic to Baghdad and may have some influence.

Last week political directors in the 12 EC foreign ministries agreed the best way of putting an end to Iraq's divisive tactics of dealing with freelance western emissaries was to get the UN involved. So far the Iraqi government has refused to talk about hostages with any UN representative, because of the world body's repeated resolutions demanding an Iraqi pull-out from Kuwait.

To get Baghdad to change its mind, the EC should now approach any and all conceivable intermediaries, in the Arab or Moslem worlds or in the non-aligned movement, the political directors suggested.

Today's meeting with Maghreb ministers, in the midst of the regular EC foreign ministerial council, is made very timely by the Gulf crisis, but has been long planned. The five Maghreb states, Mauritania, Morocco, Algeria, Tunisia and Libya, will want to hear what EC governments think of the European Commission's plans to double grants, increase loans and improve market access for countries around the Mediterranean rim.

These Mediterreanean plans are, however, bogged down in an internal EC argument that will not be resolved today. Northern EC states favour trade rather than aid (coming mostly out of their pockets), while southern EC states prefer aid rather than trade (competing mostly with their products).

The EC is generally ready to help the Maghreb integrate in its own image, even though one of the Maghreb states, Libya, has no relations with either the EC or the UK. Britain has said it will block any aid specifically earmarked for Libya in advance of Tripoli publicly renouncing its attitude to terrorism, but has no objection to Libya indirectly benefiting from technical EC aid.

# Alarmed Arabs step up effort to negotiate peace

By Tony Walker in Amman

FOREIGN Ministers of leading Arab nations opposed to Iraq have launched what may prove a last-ditch effort to find an "Arab solution" to the Gulf crisis and forestall outbreak of war.

Meeting in Damascus at the weekend, representatives of Egypt, Saudia Arabia and Syria discussed ways President Saddam Hussein might be encouraged to withdraw his troops from Kuwait.

The meeting, the second in as many weeks between Prince Saud al-Faisal of Saudi Arabia, Egypt's Dr Esmat Abdel-Meguid and Mr Farouq al-Sharaa of Syria coincided with an urgent call by King Hassan of Morocco for an Arab summit to debate the Gulf crisis.

Morocco's ruler appealed to heads of state to "give peace a last chance and meet at a summit on the basis of what the internatonal community has decided." This was a reference to demands that Iraq unconditionally withdraw from Kuwait, allow reinstatement of the Kuwaiti government and release all hostages.

Renewed Arab efforts to find a peaceful solution to the crisis reflect growing Arab alarm that the region may be plunging headlong into a disastrous conflict and that unless something is done quickly it will be too late.

An Arab diplomat in Damascus was quoted as saying that "the ministers will seek every way possible to provide a chance to the Iraqi officials to reconsider their position and realise the dangers threatening the region as a result of their insistence on continuing their occupation of Kuwait."

Damascus radio urged Iraq to quit Kuwait and called for joint Arab action to avoid war. "A unified Arab position should be reached on a just and peaceful settlement that would stop the drums of war which are beating every day."

# Bush faces renewed Congress pressure

By Lionel Barber in Washington

PRESIDENT George Bush yesterday faced growing calls from members of Congress to explain in greater detail his decision to send over 150,000 more troops to the Gulf.

Amid concern that the US may be sliding toward a war with Iraq, several Democratic leaders advised Mr Bush to formally seek Congressional support, perhaps even authorisation, before opening hostilities with the Baghdad regime.

Mr Bush is to hold talks with Democratic and Republican leaders on Wednesday at the White House.

Despite some misgivings about the latest escalation and much loose press and television comment about the parallels with Vietnam, support for convening a special session of Congress seems thin. Many members believe conflict is at least two months away and do not want to debate a hypothetical question.

Senator George Mitchell, Democratic majority leader, said he believed Mr Bush had yet to make a decision on whether to go to war. "The intention is to use the threat of war to prevent war," he said.

Mr Lee Hamilton, a widely respected Democrat member said: "We'll probably hit a very critical point, probably early next year, where we might have to make that awful decision whether to go in or get out. . . I would not want the President to make that decision himself. I would want as broad a base as possible, internationally and domestically."

# INTERNATIONAL NEWS

## NEWS IN BRIEF

### Militiamen pull out of Beirut

Militiamen of Lebanon's most powerful Christian group flattened barricades along the Green Line last night, packed weapons into trucks, lifted mines from roads leading to the Moslem sector and left Beirut, Reuter reports.

The Lebanese Forces, a 10,000-man private army led by Samir Geagea, was expected to complete its withdrawal from the capital in a few days. It is one of the last main groups leaving the city under a plan to restore government control after 15 years of civil war. The Shi'ite Moslem Hizbollah (Party of God) is the other. It has evacuated several positions and abandoned a major barracks in Beirut's southern suburbs.

### Chandra Shekar names deputy

Mr Chandra Shekar, who was sworn in on Saturday as India's new Prime Minister, has named only one other member of his cabinet. He is Mr Devi Lal who was dismissed as deputy prime minister by Mr V.P. Singh and now resumes his former post, David Housego reports from New Delhi.

Mr Chandra Shekhar is not expected to name other members of his cabinet until later this week. He is to seek a vote of confidence before a special session of parliament on Friday. The delay is to enable him to broaden his government as far as possible beyond the 60 or so members of his own Janata Dal faction and to consult with the Congress party over his team. Mr Devi Lal, who was at the centre of the conspiracy to overthrow former Prime Minister V.P. Singh, is also expected to get back his post of Minister of Agriculture.

### Israel plans to bar more Palestinians

Israel intends to increase the number of West Bank and Gaza residents barred from entering the country by 2,000 to 10,000, in response to a recent upsurge of violence, *Judy Maltz* reports from Jerusalem.

Mr Shmuel Goren, the ministry's co-ordinator of affairs for the occupied territories, said the list included Palestinians with past records of criminal or security-related offences.

"According to the assessment of the security forces and the police, these people represent a potential risk," he said.

About 8,000 Palestinians, primarily residents of the Gaza Strip, have already been issued special green identification cards, which prevent them from entering Israel. According to Mr Goren, over 2,000 new green cards will now be issued.

Some 120,000 Palestinians cross the green line each day.

## Curbs on Seoul's financial liberalisation disappoint US

**By John Ridding** in Seoul

SOUTH Korea's slow pace of financial liberalisation and continued restrictions facing *foreign financial institutions* could prompt retaliatory action from the US, a senior US official warned yesterday.

Mr Charles Dallara, the treasury department's assistant secretary for international affairs, said he had been disappointed by the response of his South Korean counterparts during two days of talks on a wide range of financial issues.

"The frustration level in Washington is high," he said. "I hope the Korean side will reflect further."

Mr Dallara said he did not regard retaliation as a productive way of opening markets. But there would be increased *congressional* pressure for action, including passage of the Riegle bill providing for retaliatory measures against countries which discriminate against US financial institutions.

Subjects discussed during *the bilateral talks* included increased access to funding for foreign banks operating in South Korea, easing of regulations about extension of branch networks, liberalisation of capital flows and opening of the domestic securities market.

Mr Dallara said progress had been made in some areas. He cited the South Korean government's reaffirmation of its commitment to open the country's capital markets to direct foreign investment in 1992 as "one of the most positive results" of the talks.

The South Korean government also said it would open the trust banking market to foreigners during the first half of next year and would take steps to reduce discrimination against foreign *banks in the* short term call money market.

The five-member US delegation welcomed a number of measures taken earlier this year. These include adoption of a new system of exchange rate determination and an increase *in the value* of certificates of deposit which foreign banks can issue.

*But Mr Dallara said that he* had hoped for more definite responses to the problems of funding and branch *extensions* and that the continued existence of foreign exchange controls limited the extent to which South Korea's exchange rate was determined by the market.

## Lebanese central bank seeks powers on liquidity problems

LEBANON'S central bank is pressing strongly for new legal powers to deal with the liquidity problems faced by some of the country's banks following a decade and a half of civil war.

Mr Marwan Ghandor, vice-governor of the central bank, said he believed there was a "reasonable chance" that a new law would be passed by the *Lebanese parliament*, despite the complexity of the proposal.

*The law would empower the* central bank to deal more effectively with those of the 83 *Lebanese banks facing liquidity* problems, allowing it, for example, to force bank mergers or closures where necessary.

Mr Ghandor, speaking from Beirut by telephone, said the liquidity problems faced by some banks arose for three main reasons.

Some were illiquid largely because their business had concentrated on property lending, and they had now turned almost into property companies as they had foreclosed on defaulting borrowers. Other banks were simply too small – Beirut has a number of tiny family-owned banks. He said a third group faced problems because of mismanagement or abuse, where the central bank would seek, if possible, criminal prosecutions where appropriate.

He confirmed that the central bank had provided loans in Lebanese pounds, collateralised against property, to help deal with liquidity problems at a number of banks, but said this was not an ideal way to deal with the problem. Some banks had also been allowed to lower the level of reserves they kept with the central bank to below the 73 per cent legal reserve requirement.

He said, however, that two banks cited *among a list of* 11 in a previous article in the Financial Times as having received central bank loans had not in fact done so. The two banks were Universal Bank and Foreign Trade Bank, which have both said they do not face a liquidity crisis. Other banks not cited in the article had received loans, Mr Ghandor said.

Mr Ghandor said the problems of managing the Lebanese banking system were heightened by the extent to which the system depended on the US dollar. The Lebanese pound accounted for only 20 per cent of the total banking system, he said.

### Correction
### Foreign Trade Bank

We very much regret the inclusion of Foreign Trade Bank SAL in the list of banks mentioned in an article about Lebanese banks published in the FT on November 1. The *bank is not facing* a *liquidity* crisis and has not received, been offered, or applied for a *loan from the central bank of* Lebanon.

The allegation reported later in the article concerning businesses run outside Lebanon, has no application whatever to Foreign Trade Bank or those responsible for its management.

The Financial Times is pleased to take this opportunity of publishing this correction and unreservedly apologises to the bank and its managers.

## Japan wants chip pact to expire

**By Ian Rodger** in Tokyo

A JAPANESE trade official served notice yesterday that Japan was not willing to consider an extension of the controversial US-Japan semiconductor trade agreement of 1986.

*The agreement is due to* expire next July and the US chip industry wants Washington to demand an extension.

Mr Noboru Hatakeyama, director-general of the Ministry of International Trade and Industry's international trade policy division, said yesterday: "We will not talk about an extension of the agreement".

Mr Hatakeyama also:

- Reaffirmed that Japan would complain to the General Agreement on Trade and Tariffs if the US launched new *unfair trade cases against* Japan under the super 301 provision of the 1989 Trade Act;
- Chided the US government for not respecting its commitment under the Structural Impediments Initiative talks to eliminate its fiscal deficit by fiscal 1993;
- Opposed any extension of the Uruguay Round multilateral trade negotiations and expressed confidence the round could be completed successfully on time next month.

Mr Hatakeyama said the US-*Japan chip agreement had* caused a lot of problems because of the widespread "misunderstanding" that Japan had agreed to ensure that US makers could have a 20 per cent share of the Japanese market. "This cannot be the case under a free market system," he said.

EUROPEAN NEWS

# Czechs prepare for privatisation

By Leslie Colitt, recently in Prague

AN ECONOMIC and social revolution will begin in Czechoslovakia in a few weeks when the first of more than 100,000 formerly state-owned stores, restaurants, workshops and factories will be offered for sale to private bidders.

Although most Czechoslovak companies will be in private hands when the operation is completed in 2-3 years, many are eventually expected to go bankrupt.

The social risks in privatisation are enormous. Traditionally egalitarian Czechoslovaks will be subjected to enormous differences in income within a short period of time. But perhaps most frustrating for the population is that the new entrepreneurs who rise to the top are likely to be some of the most unsavoury characters in Czechoslovakia.

"Even if you succeed in transforming the economy, the winners may be the same people who won under the old system," Mr Dusan Triska, the deputy finance minister who is responsible for privatisation, told the Financial Times. "We have to be blind to this injustice," he insisted.

Ironically, those judged most likely to rise to the top via the privatisation route are the directors of the former state companies, the "Communist mafia," along with illegal currency dealers and other operators who made enormous profits in recent months. They make up a large part of the nearly 50,000 Czechoslovaks who are thought to have at least Koruna 10m each on their bank accounts. Mr Triska suggested that the best way to use this "dirty money" was to invest it productively in the private sector.

The auction sale of some 80,000 smaller state properties – mainly retail shops, restaurants and other service businesses which are not reclaimed by their former owners or their heirs – will be launched in coming weeks, while privatisation of large companies will begin early next year under legislation to be enacted this month.

Though auctions will only be open to Czechoslovaks, there is nothing to prevent foreign money being channelled through Czechoslovak bidders. This is just what is expected to happen but Mr Lubos Rezabek, an adviser in the Czech Economics Ministry, said this did not worry the government. "We need the foreign capital."

The bids offered in the first auctioning of properties cannot be more than 50 per cent below their book-value, a nominal sum which in many cases will be well below what the property is actually worth. Significantly, the companies will enter private hands free of debt as the National Assets Fund will cover part of debts out of earnings from sales. Whatever is not bought in the first round of auctioning goes into the second round, which is expected to be completed next spring. Foreign bidders will be welcomed in this phase where the selling price cannot fall below 20 per cent of book-value.

Large-scale privatisation under the Transformation Law will be a good deal more complicated. In order to create a rudimentary "people's capitalism" citizens will be issued vouchers valued at a number of points. Shares in selected companies are to be placed on the market in exchange for the voucher points which may be combined by citizens in order to buy blocks of stock. Financial institutions will be able to sell shares in mutual funds to citizens who may also buy additional vouchers, but at a premium price for each point.

# Ivory Coast puts energy into reform

**Julian Ozanne** looks at an attempt to overhaul an ailing economy

Ivory Coast's recent privatisation of the state-owned electricity industry marks a fundamental turning point in the government's attempts to reform its economy.

Before the move last month, the country had been disrupted by a series of power cuts as electricity workers protested against privatisation after years of inefficient public sector management.

Their cries fell on deaf ears. Mr Alasanne Ouattara, the no-nonsense overlord of Ivory Coast's economic policy, was having none of it.

"It's tough luck," he said. "You can't restructure without hurting people, but there is the national interest to consider. We've got to get the resources to promote growth and make our economy more competitive."

Under Mr Ouattara, recently named as the country's first prime minister, Ivory Coast's structural adjustment programme is becoming one of Africa's most far-reaching and energetic. His unabashed enthusiasm for privatisation and the free market as motors for economic growth are rare sentiments on a continent which has reeled under state intervention for decades.

Mr Ouattara said: "Privatisation will come to all sectors of the economy. There are no exceptions. I don't believe in a strategic sector."

Such radical views are not shared by other African finance ministers and Mr Ouattara's choice of electricity as the first privatisation candidate was greeted with enthusiasm by international donors. The company was widely regarded as one of the most inefficient and over-manned state enterprises with exhorbitant tariffs, a reputation for providing lucrative sinecures to the political elite and an accumulated debt of $350m (£178m). Its annual sales are worth approximately $400m.

A deal has been signed with SAUR, a subsidiary of the French company Bouygues, which has run Ivory Coast's private water industry for more than 25 years. The debts and $1.9bn investment in EECI have been be separated from electricity production and distribution and a management company has been set up by SAUR invested with $40m-50m capital. It is effectively a leasing deal, with SAUR managing the company at its own risk.

Other candidates slated for privatisation within the next nine months include the telephone, rubber, palm oil and sugar companies.

For Mr Ouattara, former director for Africa at the International Monetary Fund and governor of the West African Central Bank (BCEAO), privatisation represents a key component in his drive to overhaul the Ivorian economy which is crippled with a $15bn external debt, bogged down with corruption, and over-dependent on falling revenues from coffee and cocoa.

A short-term stabilisation programme is being implemented, backed by the fund, which aims to cut the budget deficit from 18 per cent to 10 per cent of GDP by next April. Its measures include retiring 7,000 civil servants, selling off 4,000 state vehicles, down and overhauling the customs department,estimated to cost CFA FR20bn(£40m) a year.

These measures released vital donor financing, about $1bn over the programme period, allowing the government to retire some of its considerable CFA Fr500bn internal debt and relieve a severe liquidity squeeze in the banking sector which was a serious brake on the private sector.

The short-term programme has restored confidence but with continuing low prices for cocoa and coffee, Ivory Coast's main foreign exchange earners, the medium-term prospects look more challenging.

Reducing the drain of the state-owned sector is paramount. Mr Ouattara said the government invested CFA Fr 1,300bn in the 140 public enterprises during the 1980s. But companies where the state has 100 per cent ownership recorded a cumulative loss of CFA Fr80bn between 1982 and 1988.

It is hoped privatisation will also encourage foreign investment and technology transfer, provide opportunities for small ivorian savers and promote better management.

There are formidable obstacles however. Several economists question how far the Ivory Coast can become competitive when the CFA franc is considered over-valued by at least 30 per cent.

Another problem is the existence of monopolies, reserved markets, barriers to entry and large rents extracted from the over-regulated economy.

## UK NEWS

# Section Two under the spotlight

**Richard Donkin** and **Richard Waters** find out what the new director of the Serious Fraud Office thinks of the challenge to its powers

SITTING in a royal blue armchair behind a businesslike desk on the ninth floor of an anonymous grey block in Elm Street that serves as the headquarters of the Serious Fraud Office, Mrs Barbara Mills, QC, is preparing for the SFO's sternest test yet.

Just two months after taking up her job, the SFO's new director is having to defend her office's use of its powers in the first challenge it has faced through the courts since it was formed two and a half years ago.

On Mrs Mills's shoulders rests much of the responsibility for maintaining confidence in the integrity of London's financial markets.

The large and complex frauds that the SFO was set up to investigate and prosecute arise mainly, although not exclusively, in the City. By creating the SFO, the government signalled its belief that deregulated financial markets prosper only with beefed-up policing.

For the SFO, the extra beef is contained in section two of Criminal Justice Act. There is no right of silence for anyone served with a "Section Two", as they have come to be known. It is the use of that power which is to come under the scrutiny of a judicial review instigated by Mr Asil Nadir, chairman of Polly Peck International.

Mrs Mills has given no indication that she wants to exercise her own right of silence. She has deliberately adopted a high profile, delivering a number of lectures and doing little to dispel the "supercop" image portrayed in one newspaper cartoon – although she confesses that she did not like the personalised image.

"I don't think I am a superwoman at all," she says.

Mrs Mills is clear about her aim: to make the office an effective prosecutor, creating a deterrent to fraudsters. "It's a failure when frauds reach us. They have been committed and we usually can't get any money back for people."

In 25 years as an advocate in private practice, Mrs Mills's cases have included the prosecution of Mr Donald Fagan, the man who shinned up a drainpipe and climbed into the Queen's bedchamber in Buckingham Palace, and the defence of Mr Winston Silcott, who was convicted of murdering PC Kenneth Blakelock during the Broadwater Farm Estate riots in 1985.

Alan Harper
Barbara Mills: has deliberately adopted a high profile

The experience, she says, has left her with a sharp sense of the difference between right and wrong, which she is determined to drive home in the boardrooms of the City. Her hackles rise at the suggestion that some of the newer corporate offences cannot be described as serious crime.

"If anyone thinks that dishonest conduct is not a crime, then it is time they rethought their attitude to life. There is no fraud you can commit which isn't a criminal offence involving dishonesty. The real acid test is: would you mind everyone knowing what you have done?"

She places fraudsters in three categories – those who set out to defraud, those who are honest but turn to fraud after getting into financial difficulties, and those who turn to fraud over a particular episode.

"They all involve dishonesty, they all involve the defrauding of other people – either directly . . . or indirectly where the market is rigged to the disadvantage of those who are on the receiving end . . . They all rank equally importantly in my categories."

The simplicity of the approach is appreciated by her staff, who have warmed to what they consider a refreshing and very different style from that of Mr John Wood, her predecessor. The Guinness convictions, days before Mr Wood departed to become director of public prosecutions in Hong Kong, gave him the prestigious corporate scalps that had previously eluded him during his tenure.

Some SFO staff still question, though, whether she has the experience to manage a department of more than 100 people, and wonder how she will square up to the mandarins in Whitehall who have already removed her deputy, Mr Michael Chance.

His enforced retirement in a cost-cutting exercise was a *fait accompli* as soon Mrs Mills's appointment was announced. The Treasury decided it could not justify two lawyers in the most senior posts of the office.

As a hands-on director, she insists on visiting every SFO case in court at least once, and reads all case conference notes. "Your presentation in court is only as good as your preparation and your staff behind it," she says.

It was a black day, therefore, in September when a case of alleged forgery and fraud against four men involving £60m at Hill Samuel merchant bank collapsed at Knightsbridge Crown Court in London after the prosecution admitted a delay in passing witness statements to the defence.

A measure of her style is that the inquest on that, and other cases, was clinical rather than emotive. "I don't thump tables, heads don't roll. I want to find out, in a measured and sensible way, the facts and what went wrong, to make sure that we put in such checks and balances or systems, or whatever it is you need, so that it doesn't happen again."

Her tasks are not all internal. One of the toughest to crack will be the way that false rumours of SFO raids have been used in the stock market to drive down the share prices of some companies (known as "bear raids").

Mrs Mills says: "They seem to have become prevalent very recently. I hope that the Stock Exchange is going to tackle this as well. It's not just a problem for us."

However, there is little the SFO can do. "How do I on the one hand say, 'No we are not investigating this organisation' when we aren't, but on the other hand, when we are investigating an organisation but don't want them to know, then say 'no comment'?"

If the secrecy of the SFO has played into the hands of the bear raiders, it has also been at the bottom of the confusion in the stock market over Polly Peck on the day its shares were suspended. Having raided a company linked to Mr Nadir, the SFO made no general announcement, but was prepared to confirm its raid to anyone who cared to ask.

Markets do not like such unequal distribution of information – a fact that the SFO appears to have taken on board, since there are indications that it has been reviewing its policy in that area.

Once Mrs Mills has her feet firmly under the desk at the SFO, what next? Growing calls for a rationalisation of the City's various investigatory bodies, which extend from the Department of Trade and Industry to the Serious Fraud Office, assorted fraud squads, and a bevy of self-regulatory bodies, have not escaped her.

The question of an all-embracing body is high on her agenda. "I'm seriously thinking about that," she says. "Come back and talk to me in six months' time."

## APPOINTMENTS

### Changes at Goodyear company

■ GOODYEAR GREAT BRITAIN has made a number of senior management changes within its UK business operation.

**Mr John Richardson** has been appointed general manager and chairman of the company's UK operating committee. He will remain finance director.

**Mr Gordon Bain**, sales and marketing director for passenger car tyres, has also been appointed commercial director with resonsibility for co-ordinating Goodyear's commercial activities in Great Britain.

**Mr Peter Blackford**, previously chairman and managing director, Goodyear Great Britain, is made director, commercial tyres, Europe.

**Mr Jim Parker**, company secretary, joins the board of directors.

■ **Mr J.H. Russell**, former chairman and chief executive of Duport, has been appointed chairman of CAMBORNE INDUSTRIES and a director of ABERNEATH INDUSTRIES.

■ The CHRYSALIS GROUP has appointed **Ms Arabella Woods** as managing director of Chrysalis Home Video.

■ **Mr H.A. Horsfield**, recently retired area director of Lloyds Bank, has joined the board of R.P. CARTER (SHOPFITTERS), Crawley, as a non-executive director.

■ NOBLE LOWNDES & PARTNERS has made the following board changes: **Mr Richard Malone** as marketing director, **Mr David Pearce** as director of the newly-formed international development group, and **Mr Mike Noakes** as director of the international region.

Newly appointed to the board are **Ms Elaine Baker** as research director, **Mr Tony Brodie** as sales director and **Mr Wladek Koch** as director of the central region.

■ At RHM **Mr M.E. Beckett** and **Mr A.M.B. Large** have joined the board. **Mr J.B.H. Collins** retires at the annual meeting, while **Mr J.H. Gunn** is leaving on January 1 to spend more time on other business.

■ WADDINGTONS CARTONS has appointed **Mr Bruce Szawlowski** as managing director. Previously general manager, Mr Szawlowski joined Waddingtons Cartons as production director in 1989 from Jowetts of Leeds. He succeeds **Mr Alan Reeve**, the previous managing director, who became chief executive earlier this year.

■ At ROYAL INSURANCE HOLDINGS **Mr Allan Gormley** has been made a director. He is a director of Trafalgar House and chief executive of John Brown.

■ ABBEY NATIONAL has appointed **Mr Peter Radcliffe** to the newly-created post of head of banking development. For the past 20 years he has been with Lloyds Bank, most recently in the position of head of commercial and strategy for card services.

■ **Mr Howard Stanton** will join ALLIED LONDON PROPERTIES as a director on January 2. He was a director of Anglo-Leasing and group financial director of J. Rothschild Holdings.

■ **Mr Tom Kerr** has been appointed managing director of BIRMINGHAM CAPITAL TRUST. Previously he was a director of Darlington & Co and Treloan in the south west of England.

■ THE MORTGAGE CORPORATION has appointed **Mr Chris Herbert** as director of marketing and **Mr Martin Augier** to the new position of director of customer services. Mr Herbert joins from American Express where he was marketing manager, financial services. Mr Augier was a director of HFC Bank in charge of operations and customer services.

■ **Dr Michael J. Crumpton** has become a non-executive director of AMERSHAM INTERNATIONAL. He is deputy director of research at the Imperial Cancer Research Fund.





## COMPANY NOTICE

### UNILEVER N.V.

DIVIDEND ON DUTCH CERTIFICATES OF Fl.1,000, Fl.100, Fl.20 and Fl.4 FOR ORDINARY CAPITAL ISSUED BY N.V. NEDERLANDSCH ADMINISTRATIE- EN TRUSTKANTOOR

Interim dividend payments of Fl.1.44 per Fl.4 ordinary capital in respect of the year 1990 will be made on or after 20th December 1990 against surrender of Coupon No 7. Coupons may be encashed through one of the paying agents in the Netherlands or through Midland Bank plc at the address below; in the latter case they must be listed on the special form, obtainable from the Bank, which contains a declaration that the certificates do not belong to a Netherlands resident.

DUTCH DIVIDEND TAX relief is given by certain Tax Conventions concluded by the Netherlands. A resident of a convention country will, generally, be liable to Dutch dividend tax at only 15% provided the appropriate Dutch exemption form is submitted. No form is required from UK residents holding "K" certificates if the dividends are claimed from Midland Bank plc within six months from the above date. If the certificates are owned by a UK resident and are effectively connected with a business carried on through a permanent establishment in the Netherlands, Dutch dividend tax at 25% will be deducted and will be allowed as credit against Dutch tax payable on the profits of the establishment. Dutch dividend tax on this dividend is Fl.0.3600 at 25% and Fl.0.2160 at 15%. The proceeds from the encashment of coupons through a paying agent in the Netherlands will be credited to a convertible florins account with a bank or broker in the Netherlands.

UK INCOME TAX at the reduced rate of 10% on the gross amount will be deducted from payments made to UK residents instead of at the basic rate of 25%. This represents a provisional allowance of credit at the rate of 15% for the Dutch dividend tax already withheld. No UK income tax will be deducted from payments to non-UK residents who submit an Inland Revenue Affidavit of non-residence in the UK.

A statement of the procedure for claiming relief from Dutch dividend tax and for the encashment of coupons, including names of paying agents and convention countries, can be obtained from Midland Bank plc at the address below.

N.V. NEDERLANDSCH ADMINISTRATIE- EN TRUSTKANTOOR
London Transfer Office, Midland Securities Services, Client Delivery, Stock Exchange Services, Suffolk House, 5 Laurence Pountney Hill, London EC4R 0EU.
9th November 1990.

## CONTRACTS & TENDERS

### NOTICE OF INVITATION TO TENDER

The European Parliament has published, in the official journal of the European Communities (OJ No. S 214), an invitation to tender in respect of

**BUILDINGS ASSISTANCE AND CONSULTANCY**

concerning the architectural, operational, and financial aspects of a building to be erected in Strasbourg. The building will occupy a floor area of approximately 100 000 m2, including a 750 seat debating chamber, 11 conference rooms, several other large rooms, various facilities, and 890 offices.

The closing date for requesting copies of OJ No. S 214 is 28.11.1990 and the closing date for receipt of tenders is 17.12.1990.

The documents relating to this invitation to tender (Official Journal and specifications) may be obtained from:

EUROPEAN PARLIAMENT
Buildings Division
Mr Diogo QUINTELA
L 2929 LUXEMBOURG

Tel: 010 352 4300 4527
4300 3500

**SOUTHERN TRANSFORMER PRODUCTS LIMITED (IN RECEIVERSHIP)**

Registered number 757064
Trading name: Southern Transformer Products Limited
Nature of business: Engineering & Allied Industries
Trade classification: 87
Date of appointment of administrative receivers: 1 November 1990
Name of person appointing the administrative receivers: National Westminster Bank Plc
N.J. Vooght and C.J. Hughes
Joint Administrative Receivers
(office holder nos 005336 and 002041) of
Cork Gully
9 Greyfriars Road
Reading
Berkshire RG1 1JG

Tenders are requested from insurance underwriters for minimum potential premium of £5 million agricultural business. Please reply by mid November to:
Write Box H7642, Financial Times, One Southwark Bridge, London SE1 9HL

**OLIVE TREE PRESS LIMITED**

We, N J Vooght and J M Iredale of Cork Gully, 9 Greyfriars Road, Reading RG1 1JG hereby give notice that on the 29th day of October 1990 we were appointed Joint Administrative Receivers of the above named company by Midland Bank Plc under the terms of a debenture dated 20 November 1987 giving the holders a fixed and floating charge over the whole of the assets of the company

N J Vooght
Joint Administrative Receiver

هكذا من الإعلانات

## UK NEWS

# Major predicts short, shallow recession

**By Peter Norman and Edward Balls**

THE RECESSION in Britain is unlikely to be very deep or very long, Mr John Major, the chancellor of the exchequer, said yesterday.

In an interview with the BBC the chancellor said it was "probable" that Britain would be "in a modest recession in the second half of this year." Britain would begin to come out of the recession "around about the middle of next year," he said.

Mr Major's qualified admission that Britain is in recession contrasted with his Autumn Statement which carefully avoided using the word.

He said yesterday that he expected Britain to emerge from the current economic slowdown "reasonably respectably" because there would be restocking by businesses and a changed psychology once the rate of retail prices inflation starts to fall.

In his Autumn Statement, Mr Major said the government expects inflation, which in September reached an annual 10.9 per cent, to fall sharply from April. "I don't think one should underestimate the psychological impact of a retail price index at its present level," he said yesterday.

The chancellor's relatively optimistic view that the recession would be short and shallow coincided with a gloomy Financial Times/Confederation of British Industry distributive trades survey, pointing to a further weakening of the economy last month.

Because of poor trading conditions in the wholesale and motor trades, Britain's distributive trades recorded their worst performance last month since the survey was launched seven years ago.

In the BBC interview, Mr Major admitted that the latest inflation and growth forecasts could be upset by war in the Gulf. But although war would be "very destabilising", Britain, as a small oil exporter, would be better placed than most other industrial economies, he said.

THE COAL INDUSTRY

# Miners' leader faces key defeat on industrial action

**By John Gapper and Michael Smith**

MR Arthur Scargill, president of the National Union of Mineworkers, is facing defeat in an industrial action ballot this week at pits in the Yorkshire coalfield which have long been the foundation of his support.

Several pits are likely to vote against an overtime ban, according to Yorkshire NUM leaders. If a majority of the 22,000 Yorkshire miners did so, it could undermine the stance on pay talks the NUM has held since the 1984-85 strike.

Leaders of the NUM are urging its 55,000 members to support an overtime ban which could cut coal output heavily. They want an alternative to the pay negotiating framework backed by British Coal, which embraces the rival Union of Democratic Mineworkers.

There are widespread doubts about whether miners as a whole will back an overtime ban, but a change of mood among the traditionally militant Yorkshire miners would make it far harder for the union to sustain its defiance of British Coal.

NUM branch secretaries at several Yorkshire pits said miners might vote against action because of the potential loss of earnings, and doubts as to whether action would succeed in making British Coal change its stance.

At other pits in Yorkshire and the North East area, local NUM leaders said they hoped to achieve a vote for action but believed the result would be close. There will be a pithead ballot on Thursday and Friday of this week.


Mr Arthur Scargill

Although a majority of the NUM's 15 areas voted in favour of changing the union's stance on pay at its annual conference in this summer, areas including Yorkshire and North East used their voting strength to resist a change.

Mr Peter Heathfield, NUM national secretary, said he believed the vote was "moving in favour" of an overtime ban. A special delegate conference of the union decided last month to campaign for industrial action.

If industrial action was called, it would be the first national action since the limited overtime ban in 1987 over revisions to British Coal's disciplinary code.

That action failed to achieve a shift in the corporation's stance.

Mr Ted Millward, Maltby colliery branch secretary, said he believed the 850 miners at the pit would vote against action because they did not think they could force British Coal to adjust its stance on pay bargaining.

Mr Steve Tulley, Frickley branch secretary, said miners there thought it was "the wrong side of Christmas" to start industrial action. He said some had "thrown the towel in" because of British Coal's stance.

At other pits NUM leaders said they thought the vote could be close despite a strong campaign in favour of industrial action by NUM activists.

● BRITISH Coal will be able to make unexpected price rises next year under its contract to supply 70m tonnes of coal to National Power and PowerGen, the electricity generating companies in England and Wales.

This will intensify pressure on the 12 regional electricity companies to increase their own charges to domestic customers by more than inflation which would breach an undertaking between the companies and the government.

British Coal's ability to raise prices stems from confidential clauses in its three year coal supply contract to the generating companies, the most important contract for the electricity industry in its early years in the private sector.

# Oil industry anxious over final Piper Alpha report

**By Steven Butler**

BRITAIN'S oil industry is anxiously awaiting publication today of the final report of the public inquiry into the Piper Alpha disaster, in which 167 men died two years ago in the world's worst offshore oil disaster.

The government has already pledged to act on the more than 100 recommendations in the report, which may lead to a big shake-up in Britain's offshore safety regulations, forcing the oil companies to make expensive safety investments.

The recommendations may include moving responsibility for safety off shore from the Department of Energy to the Health and Safety Executive, something for which both trade unions and the Labour Party have alike argued.

The oil companies say they do not care which body is responsible for enforcing safety, but want it to be handled by a single organisation sufficiently well funded to retain high-quality staff.

The disaster was believed to have been started by an improbable chain of events that led to an escape of gas through a valve which was under repair. The initial explosion knocked out the principal emergency systems and the spread of fire quickly made escape almost impossible.

Oil companies believe they have anticipated most of the report's likely safety recommendations, but are concerned that it may contain expensive or impractical proposals.

## UK NEWS

CBI/FT DISTRIBUTIVE TRADES SURVEY

# Sales level touches seven-year low

By Edward Balls

A SHARP RISE in wholesalers' stocks last month has prompted a drop in orders to suppliers and provides further evidence that a recession is under way in the UK.

The Confederation of British Industry/Financial Times distributive trades survey for October reports that sales in the distributive trades are lower than at any time since the survey was launched seven years ago.

Of all respondents, 36 per cent reported higher sales in October, relative to the previous year, while 50 per cent said sales were lower, giving a percentage balance of -14. That reflects poor trading performance in wholesaling and the motor trades but continued retail sales growth.

The CBI/FT Survey of 520 companies in the three sectors was carried out between October 15 and November 2 – after the 1-percentage-point cut in interest rates that accompanied sterling's entry into the European exchange-rate mechanism in early October.

*Retail* sales remained subdued compared with levels earlier in the year. Poor sales volume for the time of year was reported by 30 per cent of retailers for October, while 28 per cent reported good sales volume. That compares with 43 per cent of wholesalers reporting poor seasonal sales volume and 71 per cent in the motor trades.

Of the 257 retailers surveyed, 52 per cent reported sales volumes higher than in the same period a year ago, compared with 30 per cent reporting lower sales. Sales are expected to remain stable this month.

*Chemists and confectionery*, tobacco and newspapers were the retail sectors reporting the most buoyant sales, suggesting that the interest-rate cut may have sweetened the unpleasant dose of recessionary medicine received over the past month. Specialist foods, durable household goods, footwear and leatherware and hardware, china and DIY all reported lower sales in October.

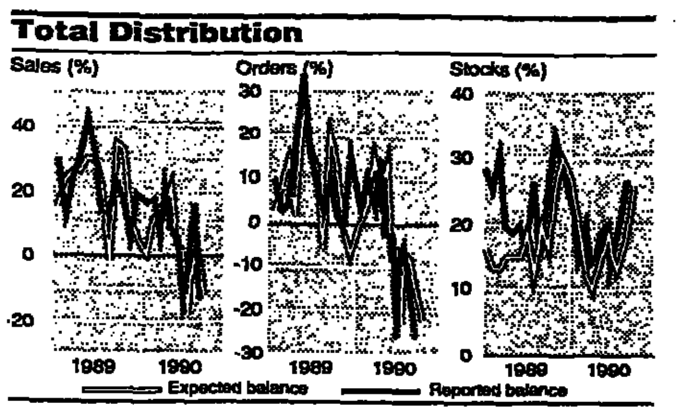
Wholesalers noted a sharp fall in sales last month with 61 per cent reporting sales down on a year ago. That reflected the general economic slowdown and a run-down in retailers' stocks relative to expected sales. Only food and drink and clothing, textiles and footwear indicated higher sales than in October 1989.

A balance of 33 per cent of wholesalers reported lower sales in October - the worst result on record. It confirms the downward trend in sales over the past two years. For November, a balance of 28 per cent of wholesalers expect lower sales.

A balance of 36 per cent of wholesalers reported excessive stocks in October and expect the same situation this month. One result was that 48 per cent of wholesalers, on balance, placed fewer orders with suppliers in October. The rate of ordering was the lowest ever recorded.

The motor trade remains the sector worst affected by high interest rates and depressed consumer spending. Lower sales in October were reported by a balance of 63 per cent of respondents compared with October last year. Sales will be depressed in November.

**Total Distribution**

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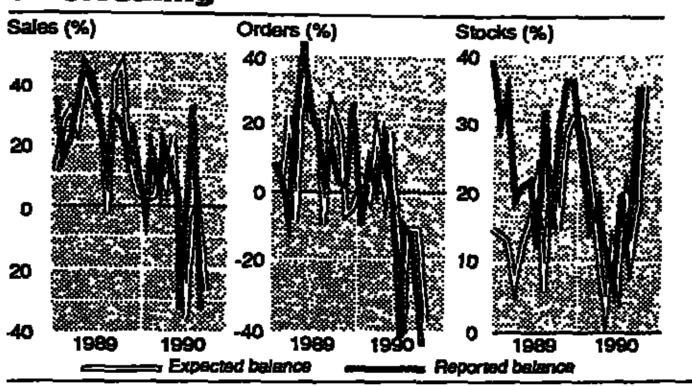


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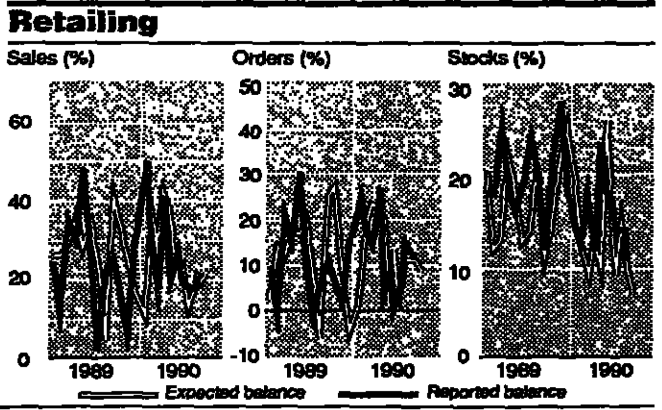



# Recession limits company directors' pay rises

THE THREAT of recession is limiting the pay rises of company directors, according to a report published today, Della Bradshaw writes. Even so, they are still likely to take home pay rises of 12 per cent including bonuses.

Hay Management Consultants, in a survey on boardroom remuneration, predicts that worse is yet to come. Today's report is based on average board-level payments up to July 1 1990, and so the average bonus – running at 18.6 per cent – is linked to profits made during 1989-90. If profits continue to fall, smaller pay rises are increasingly likely.

In spite of boardroom pay increases of between 20 and 30 per cent in recent years, Britain's directors still lag behind their peers in other countries. In Germany, directors are paid twice as much as their British counterparts, while American, Spanish and Italian directors are paid 50 per cent more. French executives earn 30 per cent more on average than British ones.

Hay says that with more cross-border recruitment, the renumeration committees of many companies are under increasing pressure to introduce pay increases in spite of poor company results. The report also highlights the growing differential between middle-management salaries and those of directors.

The industry paying the best salaries is insurance, where directors get paid 20 per cent more than average.

*The Hay Boardroom Remuneration Guide. Hay Management Consultants, 071 730 0833.*

## UK NEWS

# Lamont urges Tories to pull together

By Philip Stephens, Political Editor

THE government's problem is that far too many of its MPs see themselves as "film stars", one of Margaret Thatcher's senior ministers told journalists last week.

As a dozen or so of them engaged in another weekend of unprecedented squabbling in front of the television cameras, Mr Norman Lamont, the chief secretary to the Treasury, put it more bluntly. Unless they pulled themselves together, the public disunity would wreck their chances of winning the next general election.

His comments reflected the deep frustration of ministers that their efforts to restore calm in the wake of Sir Geoffrey Howe's resignation are being shredded by the daily appearance in the nation's living rooms of Tory MPs attacking their leader.

The soothing impact last week of Mrs Thatcher's more emollient line on Europe in the House of Commons and the joint signatures on her leadership nomination of Mr Douglas Hurd and Mr John Major *lasted only a matter of hours.*

The unabashed calls from some MPs for Mr Michael Heseltine to stand against Mrs Thatcher in this week's leadership contest have drawn in loyalists determined to vilify the former defence minister.

Thus the weekend judgment of Mr Peter Temple-Morris (Leominster) that Mr Heseltine could restore the government's fortunes brought the counterblast from Sir Patrick McNair-Wilson (New Forest) that the party was being destroyed by the "ego" of one man.

Mr Temple-Morris said on BBC Television's On The Record that Mr Heseltine would make an outstanding prime minister. "I think he has the sort of modern, national-interest but internationalist views, particularly as far as Europe is concerned, but also as far as industry is concerned . . . to be the sort of prime minister that can take us best, I think, towards the next century.

"We can't *do the 90s in the* same atmosphere and the same mood as the 80s. It all looks very stale, and unless we are very careful as a party, I am afraid we are going to lose the next election. I am quite confident that Michael Heseltine would win it."

Mr Temple-Morris said that in an election for the party leadership, Mr Heseltine would need to seek support in the range of "the 159 sacred figure which compels the prime minister's resignation."

Mr Robert Hicks (Cornwall SE) said on the same programme that Mr Heseltine was obliged to stand. "I think that one has to admit that Mrs Thatcher is now herself a major political issue," he went on.

A call by Mr Cyril Townsend (Bexleyheath) for Mr Heseltine to throw his hat into the leadership ring prompted a warning from Sir Marcus Fox (Shipley) that undermining Mrs Thatcher was playing straight *into* the hands of the Labour party.

The viewing public meanwhile – the voters on which all the participants depend – have been *presented with a* picture of a party at war with itself.

A party that once prided itself on fighting its frequently bloody battles in private before presenting a serenely united front in public has fallen into the trap that ensnared the Labour party in the early 1980s.

In one sense, the charges and countercharges being relayed over the air waves simply reflect the rising temperature at Westminster.

From huddling in the tea room and plotting in the corridors of the Commons, it is only a hundred yards or so to the purpose-built recording studios that television and radio stations provide for MPs.

Mrs Thatcher's supporters can claim also with some justification that some of her televisual opponents fall *into the* confirmed dissident, the "rent-a-quote" or the slightly eccentric category.

No one should be surprised by *the public disloyalty* shown by Sir Anthony Meyer (Clwyd NW) since he challenged Mrs Thatcher last year. Mr Tony Marlow (Northampton N), one of her most vocal critics, has long been regarded as a maverick

The public interventions of more "middle-of-the road" Tory MPs such as Mr Temple-Morris and Mr Townsend, however, cannot be easily dismissed. They provide a glimpse of the single most important factor driving Mr Heseltine's bandwagon – fear of defeat at the general election.

If anything will dislodge Mrs Thatcher – and the betting among even some of her opponents is that she will more likely than not survive this week – it is that fear.


Michael Mates: could expect ministerial post


Cyril Townsend: Heseltine should throw in his hat


Sir Patrick McNair-Wilson: one man's destructive ego


Sir Marcus Fox: party seen to be at war with itself


Peter Temple-Morris: fears of losing next election

# Support troops for both sides line up for fray

By Ralph Atkins

EVEN IF there is only one candidate for the Conservative party leadership so far – the Prime Minister – the behind-the-scenes teams of campaign managers that would be needed if there were a full-scale contest are already lining up.

Mr Michael Heseltine, the former defence secretary, spent much of last week taking his own soundings on his standing at Westminster. He also had Dr Keith Hampson, the Tory MP for Leeds North West, and Mr Michael Mates, MP for Hampshire East, available to help as "eyes and ears" in the Commons lobbies and bars.

Mr Heseltine may be more calculating than other senior Tories, but he is no more machiavellian. All cabinet ministers have parliamentary private secretaries to act as an unpaid two-way communication link with backbenchers, either on government or party business.

In return for their loyalty – which frequently continues after their mentor leaves office – they can hope for a leg-up into the ministerial ranks.

Supporters of the prime minister have also begun thinking about a possible strategy should Mrs Thatcher's leadership be contested. Details are likely to be kept under wraps until another candidate is nominated.

Last year, Sir George Younger, the former defence secretary, acted as her campaign manager, but his new job as chairman of the Royal Bank of Scotland may prove too time-consuming. Sir Norman Fowler, the former employment secretary, has been tipped as another possibility.

Insiders, however, were yesterday playing down the possibility of his taking more than a back-seat role.

Of Mr Heseltine's lieutenants, Mr Hampson was his parliamentary private secretary during much of his time in office. Mr Hampson, aged 47, is an affable, bright Tory whose politics put him on the "wet" wing of the party.

With Mrs Thatcher at the government's helm, he has been passed over for ministerial office. Instead, he has focused on his role as a member of the cross-party trade and industry select committee and his special interest in education.

Under the prime ministership of Mr Heseltine, however, he could expect the ministerial car and red boxes to arrive swiftly.

Mr Michael Mates, too, has not been promoted to government office under Mrs Thatcher but, as chairman of the Commons select committee on defence, he has had a high profile during the crisis in the Gulf.

An upright appearance and bushy eyebrows betray Mr Mates' background in the Queen's Dragoon Guards, where he rose to the rank of lieutenant colonel, and explain his nickname at Westminster, "Colonel Mates".

*At the age of 56, a successful bid for* the Tory party leadership by Mr Heseltine could see Mr Mates putting experience into practice.

# Action over IRA urged in aftermath of deaths

By Our Belfast Correspondent

ULSTER Unionists yesterday demanded urgent government action against the Irish Republican Army after the murder of four more men in Northern Ireland. All told, 26 people have been killed since the start of October in one of Ulster's most intensive periods of terrorist violence in recent years.

A police inspector, a part-time reserve constable, a civil servant and an electrician were shot dead by terrorists who ambushed them as they prepared for a wildfowling expedition on the shores of Lough Neagh on Saturday.

The killings are likely to lead to a review of security procedures for off-duty members of the security forces, although one police source said the victims would not have been difficult to ambush.

The Lough Neagh murders have cast the shadow of terrorist violence over Remembrance Sunday in Ulster. In 1987, 11 civilians died when an IRA bomb exploded at a Poppy Day service at Enniskillen.

The latest killings have occurred at the start of a politically sensitive week in the province with the fifth anniversary of the Anglo-Irish agreement on Thursday.

Mr David Trimble, the Ulster Unionist MP for Upper Bann, said: "It is only two days since Mr Peter Brooke, the Northern Ireland secretary, made yet another speech in which he was holding out inducements to republicans if they would enter the political process. I wonder how much more evidence he needs of the fact that these people need to be suppressed and put down."

He said the killings would *put back any solution to the* problems of Northern Ireland.

## Fife plant expansion

FMC, a Chicago-based manufacturer of oil extraction equipment, is to enlarge the assembly and test facilities at *its plant in Dunfermline, Fife.* The existing workforce of 245 people will be increased by 118.

# Opposition challenge on submarine retired after £100m refit

By David White, Defence Correspondent

THE OPPOSITION yesterday *called on the* government to explain why up to £100m had been spent on modernising a nuclear submarine that is now to be taken out of service.

The Ministry of Defence has decided to decommission the the submarine Warspite even though the vessel has nearly completed a refit at Devonport dockyard, Plymouth, lasting more than two years.

Mr Martin O'Neill, the shadow defence secretary, said: "We shall ask ministers to explain why so much taxpayers' money has been wasted in this way."

The ministry also announced that another nuclear-powered submarine, Churchill, was being pulled out of service. That follows the announcement in July that one of Churchill's sister-ships, Conqueror, which sank the Argentine cruiser General Belgrano in the 1982 Falklands conflict, was to be retired by the end of the year as part of immediate economy measures.

The decisions follow an inspection of all the Royal Navy's 21 nuclear-powered submarines, which was ordered after the discovery of what appeared to be a hairline crack in the primary cooling system of Warspite's nuclear reactor in January this year.

Although the ministry refused to comment on the condition of the vessels, it is [illegible] the inspection were taken into account in deciding which submarines to decommission.

The issue is particularly sensitive since the other nuclear-powered submarines now in service – including four Resolution-class vessels armed with *Polaris* strategic nuclear missiles – are powered with the same kind of Rolls-Royce pressurised-water reactors.

Warspite, commissioned in *1967, and Churchill,* finished three years later, are among the navy's oldest nuclear-powered submarines.

The ministry said it had decided to retire the two submarines immediately to avoid further unnecessary expenditure. The move was expected to save £9m in the current financial year and more in subsequent years.

The decision, the ministry added, was part of the Options for Change review, which it had warned in July would involve a sharp reduction in the submarine fleet. Apart from the four-vessel strategic deterrent force – with new Trident submarines due to take over from the Polaris vessels from 1994 – the number would be reduced from 27 to about 16. Three quarters of them would be nuclear-powered.

# Conservative group wants finance taught at school

By David Waller

EDUCATION in personal finance and investment should begin at school if the UK is serious about promoting wider share ownership, according to a pamphlet published today by the Bow Group, the centre-right Conservative think tank.

The report's authors, Mr David Shaw, Conservative MP for Dover, and Mr Alistair Marsella of the Bow Group, argue that the national curriculum should include a subject called Personal Finance and Money, because the majority of people have had no tuition in finance.

The report recommends that personal equity plans (Peps) should be replaced with a new savings plan in which income tax relief would be given at the basic rate of tax at source. Peps, it argues, are limited because they provide relief for only capital gains tax.

Capital gains tax on securities transactions should be replaced by a tax on gains made within one year and private investors should have access to direct electronic dealing, the report says.

*Widening Share Ownership. Bow Group, 92 Bishops Bridge Rd, London W2 5AB. £5.*

MANAGEMENT

Implications of 'unbundling'

# Whether to unravel the inextricable

*Breaking up a group of companies is a taxation minefield that can prove extremely costly.* **David Waller** explains why

The word "unbundling" entered the City's vocabulary in July last year when Sir James Goldsmith and friends at Hoylake launched their £13bn bid for BAT Industries, the tobacco-to-insurance conglomerate. At a now famous press conference, Sir James explained how big, conglomeratised companies needed to be "liberated" by being broken into their constituent parts.

The idea caught on: on the day of the press conference it was enough to drive the stockmarket to a peak for the year, and over the following months BAT's management did some of its own unbundling, even if it continued to battle against the bid from Hoylake. Eventually, in April this year, the bid was dropped, but even now the idea lives on.

That much was obvious last month at a conference given by Ernst & Young, the accountancy firm, on the tax implications of unbundling. At least 200 delegates from companies as diverse as Barclays Bank, APV, British Telecom, George Wimpey, Reed International and Thorn EMI, listened to briefings on what Andrew Jones, head of tax at Ernst & Young, called "the unravelling of the apparently inextricable".

The attendance of so many delegates suggests that large numbers of blue-chip companies are considering unbundling either themselves or other companies, and perhaps poor stock-market conditions alone are holding back numerous transactions of this nature. In the meantime, would-be unbundlers will have time to think about the complicated tax implications of such deals.

Whether dismembering yourself or somebody else's company, tax considerations are fundamental. Get the tax-planning wrong, and tens if not hundreds of millions of pounds may end up in the coffers of the Inland Revenue rather than in the hands of shareholders. The taxes to which the unbundler may end up being liable include Capital Gains Tax, Advance Corporation Tax, and stamp duty.

Here is the essence of the problem for unbundling somebody else's company: Company A buys the whole of Company B but Company A is only interested in one of the businesses carried on by Company B. However, if the unwanted business is subsequently sold off, Company A crystallises a tax liability which adds to the effective price paid for the company. At the outset of the bid, it may not be possible to establish how much tax would have to be paid. Company A has to buy blind.

As Iain Abrahams of E&Y spelt out at the conference last month, in practice the problems are significantly more complicated. What happens if there are numerous subsidiaries? What happens if the bidder is domiciled overseas? What happens if the businesses the purchaser is interested in keeping straddle a number of separate legal entities?

What happens is that the bidding company spends millions of pounds in fees attempting to unscramble all the variables, to set up the ideal tax structure, to negotiate with the Revenue with a view to getting approval for one of the officially allowed reconstruction schemes. These are complex pass-the-parcel exercises whereby companies and businesses are shuffled from one set of owners to another, without any tax having to be paid.

Roger White, head of tax at KPMG Peat Marwick McLintock, says that the first step for the bidder will be to attempt to establish the base cost of the target's assets and investments (ie the figure on which any capital gain will be calculated). Whether the bid is for shares or cash will make a difference. The bidder will have to prove that the reconstruction is a *bona fide* commercial transaction and not motivated simply by tax considerations.

"Watch out that you don't hang yourself with your own publicity," warned Iain Abrahams at the conference last month. "It's far too easy for the chairman to get carried away in the heat of a takeover bid and say that the sum of the parts would be worth more than the whole. You can't go back on that later."

If the tax law applicable to third-party unbundling exercises is fabulously arcane, it is far from simple for a company to unbundle itself. This is despite special provisions introduced in the Finance Act 1980 which could almost have been designed by Sir Jimmy himself, insofar as they were framed to allow conglomerates to dismember themselves in the name of liberation and shareholder value.

Few companies have availed themselves of the so-called demerger rules introduced in 1980. Trafalgar House spun off Fleet Holdings in 1981. Last year, Williams Holdings offloaded its Pendragon motor distribution company and FKI Babcock unscrambled itself into its constituent parts. In November last year Courtaulds announced a self-unbundling programme; by February of this year, the company had successfully split itself into two parts, one the traditional textile business, the other the chemicals operations.

The Courtaulds transaction provides a good example of the complications of doing something as apparently simple and sensible as a demerger. "The fact of the matter is that a demerger looks very like a tax avoidance scheme," recalls Richard Lapthorne, Courtauld's finance director.

"When we decided to do the deal I rang an assistant director at the Revenue to explain what we had decided to do. He simply could not believe that we were doing it for *bona fide* reasons. He had never come across any businessmen who wanted to make their empire smaller. I'm sure he thought that whatever motives we had, they could not possibly be pure."

The main difficulty was with the company's £60m mountain of unrecovered advance corporation tax. When a company pays a dividend, it is obliged to pay over to the Revenue a proportion of the corporation tax on the profits of the period for which the dividend is paid. The resulting ACT can be set off against a future tax bill – but only insofar as the profits are generated in the UK.

Approximately three quarters of the chemicals operation's turnover was generated overseas, while the bulk of the textiles business was based in the UK. There would be no point in structuring the transaction so that the unrecovered ACT remained in the chemicals company; it would never earn the UK profits against which to set off the ACT. Accordingly, Courtaulds tried to split the ACT, £40m going to textiles, £20m to chemicals.

The Revenue would not have any of this, invoking anti-tax avoidance legislation. Courtaulds encountered the Revenue's suspicions at every stage during negotiations. "They ignored all our commercial arguments," says Lapthorne. "Every time we suggested something, they said no, no, no." Courtaulds did not get its way on this score; had the new textile company not suffered a loss in 1989 as a result of the restructuring, the demerger would not have been neutral in tax terms.

The exercise was made especially difficult for Courtaulds because the two different businesses shared a common legal infrastructure. This had to be broken apart for the demerger and problems arose when dealing with pensions, share options and stamp duty. "We were dealing with immensely complicated areas of tax law; and the Revenue was clearly fearful of establishing precedents which could be exploited for tax avoidance at a later date," says Lapthorne.

Courtaulds' experience should be borne in mind by all attempting something simple in theory but highly complex in practice. As Lapthorne said in a letter to the Financial Times shortly after the transaction was completed: "The legislative framework within which UK tax authorities work has not been drafted to cope with the principles of demerger when set against the practicalities of fiscal life in the 1990s."

Sir James Goldsmith (above) coined the word 'unbundling' when he announced Hoylake's bid for BAT

Quality beyond the shop-floor

# Exhortation is not enough

**Simon Holberton** reports on calls for a more rigorous strategy

There was a time in Britain, about 10 years ago, when "quality" meant getting the engineering right. No more.

Some leading British companies are beginning to appreciate that embracing quality means no less than a far-reaching process of organisational change and development.

Moreover, this process has to be management-driven, and visibly so, for it to have a chance of success. Quality is no longer a thing which happens on the shop-floor but is part of the whole company's attitude to its customers, both external and internal, and its work.

As the British Quality Association's annual conference last Thursday in London demonstrated, these companies believe that – temporary recession notwithstanding – if they are to prosper in the 1990s and beyond, their business plans and strategies have to be framed with quality at the centre. It is being adopted by companies in some of the most competitive markets in international industry.

The scale of effort required to embrace total quality properly is enormous, yet even so the process does not provide quick fixes or immediate, measurable results in terms of profit.

The presentations given by executives from GPT, the telecommunications equipment company, Texas Instruments, the US electronics multinational, and British Telecom, underlined this; they showed that change has to be worked at continuously and cannot be brought about simply through exhortation.

Mike Grabiner, BT's director of quality and organisation, said that BT sees total quality as "a strategic and a competitive weapon". It is also using it as an agent of change. "We need an organisation which is interdependent and which works as a team – not as in years gone by with different tribes operating in an aggressive way between themselves," he said.

For the past four years BT has been going through a lengthy exercise in training its managers for total quality. BT started with its top managers and followed a fairly usual approach of "cascading" the quality message down through its layers of 43,000 managers.

The initial response was "agonising, defensiveness, non-belief" which, he said, was countered by vision building. Defining what sort of company BT wanted to be – a customer-responsive organisation – and, through workshops, creating goals for managers and personal projects around which teams could be built.

There are some 3,000 projects currently running at BT, some of which have produced "million pound" savings, but Grabiner noted that the company was still finding it difficult to break down the "it's my secret" mentality. He also noted that while a firm foundation had been built for improvement BT was still unable to install a company-wide "cost of poor quality" measurement system.

## Operating at lowest cost

"This has meant we have difficulty in identifying bottom line savings as a result of the effort put into total quality management," he said. "We acknowledge that we have a very long way to go before we could claim to be operating at the lowest cost."

GPT, the result of a merger of the telecoms businesses of Plessey and GEC, also used total quality as an agent of change and method by which management could forge a durable culture. Brian Meade, director in charge of GPT's business systems group, said his company's "development organisational capability programme", as its TQM drive is known, grew out of a realisation in 1988 that GPT needed to bring together the two rival factions which comprised the company.

The company developed a strategic intention to be the world's fifth largest telecoms group by being a top supplier not only of products but also service and customer satisfaction. In the spring of 1988 it exposed this strategy to its top 200 managers during a series of 10 one-week seminars.

"We tried to expose the hang-ups, concerns, problems, and worries of the somewhat fragmented organisation at the time," he said. "We tried to engender a feeling of team spirit in the senior management of GPT and give them a common goal."

This was repeated with the next top 2,000 managers and then to the company's more than 20,000 workforce. "At first a great many of the managers on the workshops were cynical, not believing; it was just another initiative, just another TQM move, just another flavour of the month. . . Through workshops people began to believe that GPT had a future."

Meade said GPT's approach to quality – like that of BT and TI – is strongly team-based. Business and quality improvement teams look at problems and priorities and decide how best to tackle them.

Then action teams are formed. The business improvement teams and the action teams operate across functional boundaries and across management layers. "This is the only way we see of involving the workforce and managers in improving the effectiveness of the company," he said.

Meade said there were no quick and easy solutions and that it would take time before the quality drive showed up on GPT's "bottom line". He said GPT had spent £3m to £4m in fees and lost production time on the initiative but it had already yielded benefits in work flexibility and had generated a "tremendous sense of power and authority" among the workforce to change things.

Ken Sanders, managing director of TI's north European semiconductor division, said that his company first introduced a total quality programme in 1980; it started with analyses of the "cost of quality" and today is focusing the business on customer care and treating service as a process. He said TI has been working to engender a culture of "continuous improvement".

"Failure to recognise that continuous improvement is a priority for everyone in the organisation to address at every level and function probably accounts for more failures in business today than for any other reason," he asserted.

# THE WEEK AHEAD

## ECONOMICS

# Inflation expected to stay at 10.9%

DID UK inflation peak at 10.9 per cent last month, or has headline inflation broken the 11 per cent barrier? Indicators released this week will provide clues in advance of Friday's inflation statistics.

Analysts expect retail price inflation to remain at 10.9 per cent in the year to October, but markets will focus on the underlying inflation rate, which excludes housing costs and is considered the best indicator of inflationary pressure.

Many UK observers now believe further interest rate cuts are inevitable. But there is no clear consensus as to whether these cuts will come sooner rather than later.

This week's UK statistics are unlikely to clarify the issue. Indications of depressed real activity will co-exist with signs that inflationary price and wage pressures have still not abated, providing divergent signals for monetary policy.

Today's announcement of producer price increases will indicate whether cost pressures have eased, while falling retail sales today and industrial production tomorrow are expected to confirm the economic slowdown.

Average earnings growth, released on Thursday, is expected to have remained above 10 per cent in September, in spite of rising unemployment and falling vacancies.

In Basle, Switzerland, today central bank governors of the Group of Ten leading industrial nations meet for their regular monthly discussion of world economic prospects.

On Tuesday, the EC central bank governors are expected to agree the statutes of the planned European central.

Other events and statistics, with median market forecasts by MMS International, the finance research company, include:

**Today:** UK, provisional retail sales (down 0.4 per cent in October), October producer prices, input and output (both up 0.5 per cent).

**Tomorrow:** UK, industrial production for September (down 0.2 per cent), September manufacturing output (down 0.5 per cent).

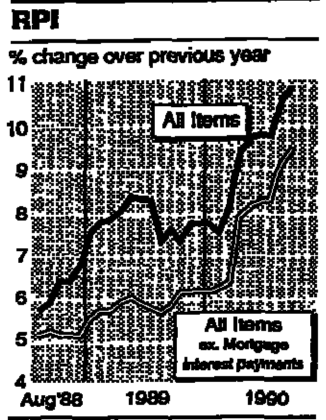
**Wednesday:** US, October retail sales and excluding autos (both unchanged), industrial production in October (down 0.5 per cent), capacity utilisation in October (83 per cent). Japan, trade balance in October ($4.6bn).

**Thursday:** UK, unemployment in October (up 23,000), average earnings for September (annual 10.25 per cent increase), September unit wage costs (annual 8.9 per cent increase). US, monetary aggregates, September business inventories (up 0.5 per cent). France, October preliminary consumer price index (annual 3.8 per cent increase).

**Friday:** UK, retail price index in October (annual 10.9 per cent), October public sector debt repayment (£1.9bn). US, October consumer price index (up 0.7 per cent), excluding food and energy (up 0.4 per cent), merchandise trade balance in September (-$8.9bn). Japan, October wholesale price index (annual 1.5 per cent increase). Canada, October consumer price index (annual 4.7 per cent increase).

**During the week:** Germany, October wholesale price index (annual 1.5 per cent increase) and producer price index (annual 2.1 per cent rise), September retail sales (annual 8.5 per cent increase).

**Edward Balls**




## UK COMPANIES

THE SLOWDOWN in the UK economy will feed its way into British Steel's interim results on Monday, with analysts expecting a sharp fall in pre-tax profits from £420m last time to about £330m.

According to Janet Siddaway, engineering and metals analyst at Kleinwort Benson, who is predicting pre-tax profits of £300m to £340m, the trading profit and projections for the remainder of the year may be more significant than pre-tax profits as a guide to the company's position.

British Airways will report its first half results on Wednesday which analysts expect to show a £300m-£310m pre-tax profit. BA reported pre-tax earnings of £156m for the first quarter of this year and second quarter earnings are expected to be around £150m. Compared to many other large international airlines whose profits have been falling or have moved into loss, BA's first-half performance is judged strong by the City. However, like other airlines, BA's profits are expected to be hit by rising fuel prices and the economic slowdown in the second half. Analysts now forecast full-year pre-tax profits of around £300m, compared with £345m last year.

Boots, the drugs and chemists company still digesting last year's acquisition of the Ward White business, is expected to turn in a resilient set of figures when it announces its interims on Wednesday although analysts are not looking for profits to advance much from last year's £160m.

Burton, the fashion retailer, will probably present a far sorrier picture and its annual pre-tax profits may fall by about £90m to the £140m mark. Concerns over its property interests persist. On Thursday Wellcome, one of the worst performing pharmaceutical stocks this year, reports results for the year to the end of August. Analysts have been cutting their forecasts in the face of adverse currency movements and worse than expected sales of the anti-AIDS drug Retrovir. Pre-tax profits are likely to be up 18 to 20 per cent, at £335m - £340m.

## PARLIAMENT

### Today

**Commons:** Debate on Queen's Speech.

**Lords:** Debate on Queen's Speech.

**Select committees:** Environment: Subject, The Climatological and Environmental Effects of the Destruction of the Rain Forests. Witness, Mrs Lynda Chalker, Overseas Development Minister. Room 21, 4.15pm.

Home Affairs: Subject, Policing Football Hooliganism. Witnesses: Football Association, Football League, Football Supporters' Association. Room 8, 4.15pm.

### Tomorrow

**Commons:** Debate on Queen's Speech.

**Lords:** Debate on Queen's Speech.

### Wednesday

**Commons:** Final day of Debate on Queen's Speech.

**Lords:** Final day of Debate on Queen's Speech.

**Select Committees:** Welsh Affairs: Subject, Future of Open-Cast Coal Mining in Wales. Witnesses: Assembly of Welsh Counties. Room 8, 10.30pm.

Trade and Industry: Subject, Sale of Rover Group to British Aerospace. Witnesses: Prof. Roland Smith, British Aerospace chairman, and Lord Young of Graffham. Room 15, 10.45am.

Energy: Subject, Decommissioning of oil and gas fields. Witnesses: Mr W. Butler, Oil and Gas Division, Department of Energy, and Mr M. Johns, Director, Oil and Financial Board of Inland Revenue. Room 18, 11pm.

Employment: Subject, Employment and Training of the Disabled. Witnesses: Organisations representing the disabled. Room 20, 4.15pm.

Home Affairs: Subject, Policing Football Hooliganism. Witnesses: Mr James Anderton, Chief Constable of Greater Manchester Police and other police witnesses. Room 15, 4.15pm.

Public Accounts: Subject, New British Library. Witnesses: Mr A. Brown, Property Services Agency, Mr K. Cooper, British Library, and Mr C. Henderson, Office of Arts and Libraries Room 16, 4.15pm.

Transport: Subject, Urban Public Transport, Light Rail Option. Witnesses: Olympia and York Canary Wharf. Room 17, 4.15pm.

### Thursday

**Commons:** Debate on EC documents on indirect tax rate proposals, technical proposals for VAT and control of excise movements. Debate on EC documents on conservation of fishing resources.

**Lords:** Debate on the report of the EC committee on the future of rural society. Motion on the report of the Archbishop's Commission on Faith in the Countryside. Census (Confidentiality) Bill, second reading. Question to Government on commitment to funding for hospices.

**Select committee:** Agriculture: Subject, Microwave ovens. Witnesses: officials from Ministry of Agriculture and Association of Manufacturers of Domestic Electrical Appliances Room 20, 10.45am.

### Friday

**Commons:** Debate on Road Safety.



## UK COMPANIES

**TODAY**

COMPANY MEETINGS:

Associated Nursing Services, 11, Henrietta Street, Covent Garden, W.C., 5.00
Astra Holdings, New Connaught Rooms, Great Queen Street, W.C., 10.30

BOARD MEETINGS:

Finals:
BOC
Bridport-Gundry
Manganese Bronze
Wardle Storeys

Interims:
Amer. Business Systems
BET
British Steel
Butte Mining
Hartlepools Water
Mercury Asset Management
Stratton Inv. Tst.

**TOMORROW**

COMPANY MEETINGS:

Frogmore Estates, Selfridge Hotel, Oxford Street, W., 10.30
Intereurope Technology Services, Lysses House, High Street, Fareham, 11.00

Hampshire, 11.00
Mucklow (A. & J.), Chamber of Commerce, Edgbaston, Birmingham, 12.00

BOARD MEETINGS:

Finals:
Metro Radio

Interims:
AAH
Ambrose Inv. Tst.
Body Shop Intl.
De La Rue
East Surrey Water
Govett American
Endeavour Fund
Great Portland Estates
Heath (C.E.)
London Intl.
Marshalls
Meyer Intl.
Somic
Unigate
Warburg (S.G.)

**WEDNESDAY NOVEMBER 14**

COMPANY MEETINGS:

Fil Group, Howard Hotel, Temple Place, W.C., 12.00
Goodwin, Great Moreton Hall, Congleton, Cheshire, 10.00

Isotron, Howard Hotel, Temple Place, W.C., 12.00
Melville, Britannia Hotel, Grosvenor Square, W., 10.00

BOARD MEETINGS:

Finals:
Five Oaks Invs.
Jessups
Moran Hldgs
Principal Hotels

Interims:
ACT
Boots
British Airways
Dunhill
Electrocomponents
Hadleigh Inds.
Land Securities
Regalian Props.
Thorn EMI
VSEL Consortium
Whitbread Inv.

**THURSDAY NOVEMBER 15**

COMPANY MEETINGS:

Barratt Developments, Plaisterers Hall, 1, London Wall, E.C., 11.00
Druck Hldgs., Fir Tree Lane, Groby, Leicester, 12.00

Green (E. & Partners), Buchanan Communications, 36, St. Andrew's Hill, E.C., 3.00
Lloyds Chemists, Red Lion Hotel, Atherstone, Warwickshire, 10.30
Raine Inds., The Assembly Rooms, Derby, 12.00
Ramus, Palace Road, N., 12.00
Thorpe (F.W.), Birmingham Chamber of Commerce and Industry, 75, Harborne Road, Birmingham, 3.15

BOARD MEETINGS:

Finals:
Blenheim Exhibitions
Burton
Concentric
Drayton Asia Trust
FKI
Gleeson (M.J.)
Greyfriars Inv.
Tomkinsons
Wellcome

Interims:
Bank of Ireland
F & C Germany Inv. Tst.
Graham Wood
Hartstone
Honda Motor
Locker (Thomas)
Rexmore
Sanders & Sidney
600 Group
Staveley Industries

**FRIDAY NOVEMBER 16**

COMPANY MEETINGS:

Dalgety, Centrepoint, 103, New Oxford Street, W.C., 11.30
Gent (S.R.), Painters' Hall, 9, Little Trinity Lane, E.C., 12.00
Renishaw, Post House Hotel, Thornbury, Avon, 12.00

BOARD MEETINGS:

Interims:
British Inv. Trust
Ferrari Hldgs.
Gates (Frank G.)
Kinta Kellas Invs.
Portsmouth & Sunderland Newspapers

*Company meetings are annual general meetings unless otherwise stated.*

## DIVIDEND & INTEREST PAYMENTS

**TODAY**

Arcadian Intl. 3p
Arcolectric 0.48p
Do. A 0.48p
Cadbury Schweppes 3p
Capita 1.5p
Clarke, Nickolls 0.25p
Edmond Hldgs. 0.65p
Great Southern 3p
Kingston Oil & Gas 0.56p
Lon Merchant Securities 2.6p
Macro 4 5.2p
Manders 2p
North Brit Can Inv 3.5p
Redland 8.25p
Rentokil 1.08p
SD-Scicon 0.275p
Scholes 5.22p
Sheffield Insulations 1.8p
Worcester 1.33p

**TOMORROW**

Avonmore Foods A Ir1.25p
BBA 2.25p
Citicorp 44.5cts
Grampian 1.5p
Homestake Mining 5cts
Ibex 1p
Minorco 32cts
Treasury 3pc 1991 1.5pc

**WEDNESDAY NOVEMBER 14**

Boosey & Hawkes 4p
Dolphin Packaging 1.5p
Haynes Publishing 3.5p
Merchants Trust 2.25p
Ossory Estates 0.45p
Rathbone Brothers 2p
TVS Entertainment 3p

**THURSDAY NOVEMBER 15**

Abbott Labs. 21cts
Assoc Nursing Services 2p
Australian Agricultural A$0.10
BHH 1p
Barclays Bank 16pc Ln 2002/07 8pc
Do. $\frac{3}{4}$pc Ln. 1986/93 $4\frac{1}{8}$pc
Beattie (James) $8\frac{1}{4}$pc Deb. 1986/90 $3\frac{1}{8}$pc
Britannia Building Society Fltg Rate Nts 1995 £382.18
Brunswick 1.84p
Burndene Invs. 15pc Ln 2007/12 $7\frac{1}{2}$pc
Chase Manhattan 30cts
Do. Fltg Rate Nts 2000 $206.04
Colgate-Palmolive 45cts
Conversion $9\frac{1}{2}$pc 2005 $4\frac{3}{4}$pc
Exchequer $13\frac{1}{4}$pc Ln 1996 $6\frac{5}{8}$pc
F & C Smaller Co's. 6pc Pf 2.1p
Fairey 2.75p
First Chicago Fltg Rate Nts Feb 1997 $209.24
Gen Motors Acceptance Corp. $10\frac{1}{4}$pc Nts 15/11/92 $5\frac{1}{8}$pc
Goodwin 0.6p
Hambros Inv. Tst. 5pc Pf 1.75p
Harding 1.75p
Headlam 0.75p
Hickson Intl. 2.85p
Inter-American Dev. Bank $9\frac{1}{4}$pc Ln 2015 $4\frac{5}{8}$pc
Killinghall (Rubber) 10p
Korea Exchange Bank Fltg Rate Nts 2000 $447.22
Liberty 1.7p
Do. Non-Vtg 1.7p
Marsh & McLennan 65cts
Midland Bank Fltg Rate Nts 2001 £191.09
National Westminster Bank Var Rate Nts £390.68
National Westminster Finance Gtd Fltg Rate Nts $230
Nova Corp of Alberta 13cts
Pacificorp 36cts
Queensland Treasury 12pc Nts 15/5/97 6pc
Scot American Inv. 4pc Deb 2pc
Shell Trans & Trading 8.4p
Do. (Br) 8.4p
Standard Life Assce 8pc Pprg $2\frac{1}{2}$pc
Sun Life 14p
Suncor $12\frac{3}{4}$pc Deb B 1991 $6\frac{3}{8}$pc
T & N 3.6p
Treasury $12\frac{1}{4}$pc Ln 1995 $6\frac{1}{8}$pc
UCB Sidac 6pc Deb 1985/90 3pc

**FRIDAY NOVEMBER 16**

Bank of Scotland (Governor & Co of) Und Fltg Rate Prim Cap Nts $444.03
Bank of Wales 1p
Bankers Tst Intl Cap Fltg Rate Nts 1996 $207.84
Barratt Devs. 3.75p
Brooks Service 1.84p
Cap & Regional Props. 0.3p
Cityvision 0.5p
Commercial Union 9p
Everod 1.935p
Expamet Intl. 4.18p
Folkes 0.55p
Do. Non. V 0.55p
GT Venture Inv. 2.5p
Hasbro 5cts
Intereurope Tech Servs 5.4p
Johnston Press 1.75p
Local Authority $15\frac{3}{4}$pc Bds 22/5/91 7.6375pc
Micklegate 1.5p
Oceana Cons 0.75p
PCT 2.4p
PFG Hodgson Kenyon 2.1p
Quicks 2p
Seymour 1.8p
TV-am 4p
Trusthouse Forte 2.75p
United Newspapers 7.5p
Wankie Colliery NZ$0.05
Westpool Inv. Tst. 1.85p
Yule Catto 2p

## TRADE FAIRS, EXHIBITIONS & CONFERENCES

### CONFERENCES

**NOVEMBER 13-15**
**Computers In The City 90.**
Focussing on the automation of trading and investment banking, flexible architectures, IT management style and decision support in trading and risk management. The Barbican Centre. Contact: Frances Bellamy-Knights, Blenheim Online
Tel: 081-868 4466 Ext 250.
LONDON

**NOVEMBER 14**
**Packaging in World Trade** Nigel Lawson and Chief Executives examine an industry increasingly global in outlook. Views and assessments of the industry's most stimulating speakers; strategies of the world's leading companies; the implications of monetary union for EC countries. Contact Delia Taylor. Tel: 0732 364422, Fax 0732 361534
LONDON

**NOVEMBER 19**
**Towards the new Century**
100 Years of Japanese Parliamentary Institutions Jointly organised: Royal Institute of International Affairs and the Japan society. Involves British and Japanese parliamentarians. Chatham House, 10 St James' Sq. London Enquiries: Japan Society 071 434 4507
LONDON

**NOVEMBER 21**
**Economic Prospects 1991**
A major seminar on the business outlook for 1991 Botanical Gardens, Birmingham. Contact: Miss Pam Leigh, Economic Techniques.
Tel: 0782 717541.
Fax: 0782 717060
BIRMINGHAM

**NOVEMBER 23**
**EDI AND THE FINANCE DEPARTMENT**
**Closing the Payments Loop**
The London Press Centre
London EC4
Contact: Victoria Garvin
IBC Ltd
Tel: 071-637 4383
LONDON

**NOVEMBER 26**
**How to Sell Your Business.**
A one-day conference for owners and their advisors covering all aspects of a company sale. Le Meridien Hotel, London. Contact: Cavendish Corporate Finance.
Tel: 071-436 2391.
Fax: 071-323 2145. LONDON

**NOVEMBER 19**
**INDUSTRIAL WASTE CONTROL & LIABILITY**
London Tara Hotel, Kensington
In depth analysis of new legislation, liabilities and management techniques for waste producers & disposal operators.
Contact: Euro Seminars Ltd.
Tel: 071-408 1923
Fax: 071-495 1495 LONDON

**NOVEMBER 19-22**
**Golf International 2000**
Exhibitions, Seminar & Workshops. For all concerned with developing golf courses in UK and Europe Seminar - November 19, Royal Garden Hotel, London. Exhibition, Workshops - Nov 20-22, Sandown Park Esher, Surrey. Tel: 081 681 1242
Fax: 081 681 0012
ESHER/LONDON

**NOVEMBER 28**
**CORPORATION & THE ENVIRONMENT**
*London Hilton on Park Lane*
In-depth analysis of new legislation, liabilities and essential preparations to be made by corporations and their advisers. *Contact: Euro Seminars* Ltd. Tel: 071-408 1923
Fax: 071 495 1495 LONDON

**NOVEMBER 26-28**
**Tools and Techniques For Implementing Environmental Auditing Conference - With Air and Water Quality Auditing Workshops.**
Sachas Hotel, Manchester. Contact: Customer Services Manager, Industrial Conferences Division, *IIR Ltd. Tel: 071-412 0142.*
Fax 071-412 0144
LONDON

**NOVEMBER 28**
**Successful Growth through Acquisition** One day conference at Effingham Park, Copthorne, West Sussex *jointly organised by Price* Waterhouse and Rawlison and Butler £75 + VAT.
Contact: Steve Crosby,
Price Waterhouse 0737 766300
LONDON

**NOVEMBER 29**
**TAURUS: NEW DEVELOPMENT AND IMPLEMENTATIONS PLANS**
The London Press Centre
London EC4
Contact: Victoria Garvin
IBC Ltd
Tel: 071-637 4383
*LONDON*

**NOVEMBER 29-30**
**Information Technology into the Next Century.**
**R and D - The State or the Market?**
Institute of Physics Annual Corporate Affiliate Conference, open to non-members. IBM (UK) Laboratories, Winchester. Contact Tilly Quanjer
Tel: 0272 297481 ext 225
Fax: 0272 294318
WINCHESTER

**NOVEMBER 29-30**
**U.K. & CONTINENTAL PROPERTY JOINT VENTURES**
London Tara Hotel, Kensington
Thorough review of the fine points of property joint venture documentation, taxation and finance plus Anglo - French PJV Workshop.
Contact: Euro Seminars Ltd. Tel: 071-408 1923 Fax: 071-495 1495
LONDON

**DECEMBER 3**
**A Day with Tom Peters. Life Without Hierarchy: The New Business Logic at Work.**
A top management briefing on creating competitive organisations in today's business environment. Royal Lancaster Hotel. Contact: Savina Pusich, Economist Conference Unit.
071-976 6565. LONDON

**DECEMBER 3-4**
**The Future of the Gulf: Risks and Opportunites.**
Hyde Park Hotel, London SW1
Contact: Kate Williamson,
Conference Connections (UK) Ltd
Tel: 0767 600662
LONDON

**DECEMBER 3-4**
**Achieving Excellence Through Continuous Improvement.** The Gloucester Hotel, London SW7. Contact: Customer Services Manager, Industrial Conferences Division, IIR Ltd Tel: 071-412 0142.
Fax: 071 412 0144
LONDON

**DECEMBER 3-4**
**Energy And the New Europe: the Global Dimension** The 5th International Energy Conference, convened by the Royal Institute of International Affairs, BIEE, and the IAEE. Chatham House. Contact: RIIA Conferences -
Tel: 071-930 2233.
*Fax: 071-839 3593 LONDON*

**DECEMBER 3-5**
***Cross Training (1 day) and Optimum Maintenance - managing maintenance for greater plant availability and peak performance.***
National Motorcycle Museum, Solihull. Contact: Customer Services Manager, Industrial Conferences Division,
*IIR Ltd Tel: 071 - 412 0142.*
SOLIHULL, W. MIDS

**DECEMBER 5**
**Energy Fuels - Environmental Costs and Political Risks.**
London Press Centre, London EC4.
Contact: Frances Quinn.
Public Issue Conferences
Tel: 071-537 3773.
LONDON

**DECEMBER 6-7**
**Digital versus IBM - a two day conference** New perspectives and independent guidance for senior managers. Kensington Park Hotel, London. Contact: Lucinda Tosh, *IBC Technical Services Ltd.*
Tel: 071-236 4080
LONDON

**DECEMBER 10 / JANUARY 22 Update on EC and UK Packaging Legislation / Cradle - to - Grave Analysis On *Your Packaging.***
Kensington Palace Hotel.
Post House Hotel, Heathrow.
Contact: Customer Services Manager, Industrial Conferences Division,
IIR Ltd Tel: 071- 412 0142.
Fax: 071 412 0144 LONDON

**DECEMBER 11**
**Acquiring in Italy.** Le Meridien Hotel, Piccadilly. London W1.
A comprehensive guide to the Italian M & A scene. Sponsored by Financiere Indosuez, Coopers & Lybrand Europe and Manufacturers Hanover. Contact: FIBEX
Tel: 071-489 9944
Fax: 071-236 6140 LONDON

**JANUARY 8-9**
**The Joint Challenge For Unions and Management - managing change in working practice.**
New Connaught Rooms, London WC2.
Contact: Customer Services manager, Industrial Conferences Division,
IIR Ltd Tel: 071- 412 0142.
Fax: 071 412 0144
LONDON

**JANUARY 29**
**WINNING THE PLASTIC CARD GAME. Survival Strategies for the 1990's**
The Cafe Royal London W1
Contact: Victoria Garvin
IBC Ltd
Tel: 071-637 4383
LONDON

### TRADE MISSIONS

**FEBRUARY 2-14**
**A London Chamber Trade Mission,** spending 3 working days each in these rich and very pro-British markets. DTI financially supported. (Closing date 23/11/90). Contact: Tracey Dorrell. Tel: 071-248 4444 ext 2070
Fax: 071-489 0391
OMAN, QATAR, BAHRAIN

**FEBRUARY 22- MARCH 1**
**Unique Trade Mission for both exporters and importers.** DTI & Egyptian-British C OF C financial help. Agro/horticulture/food - process orientated, but all - comers welcome. (Nett £645 incl. fares, accom & many extras. Closing date 23/11/90). Contact: Tracey Dorrell, Tel: 071-248 4444 ext 2070. Fax: 071 489 0391.
EGYPT

**MARCH 18-22**
**London Chamber Trade Mission.**
DTI financially supported for both British exporters and importers.
(Closing date 11/12/90). Contact: Nynzi Maung, LCCI.
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### EXHIBITIONS

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## CONSTRUCTION CONTRACTS

# £50m headquarters

*NORWEST HOLST* has been awarded the £50m design and construct contract for the national headquarters building of the Department of Health and the Department of Social Security, at Quarry Hill in Leeds.

Described as a landmark building for the Quarry Hill area, Quarry House includes 400,000 sg ft of office space for an anticipated 2,000 employees, together with a range of recreational facilities and extensive landscaping.

As part of the team, Crown House Engineering will design, supply and install all the mechanical and electrical services. Its work will include providing comprehensive air conditioning systems and an extensive data cabling management system, together with the installation of raised flooring and suspended ceilings.

The reference design is based on a central axis, on which the building is placed symetrically. The west elevation, with views down the site, stops the axis of the Headrow-Leeds boulevard with an arch as the formal entrance to the building.

The east elevation, the staff entrance and the main view from the road, is two-storeys taller, with a stone tower in the centre, flanked by two pavilions with carved roofs. The north and south elevations have curved walls.

Quarry House is split into three levels; the base is a granite plinth; the middle is a brick elevation incorporating York stone; and the top is a slate mansarded roof.

Two internal courtyards with atria will be landscaped and form the corporate heart of each state department.

# Scottish motorway deal

**SHANKS & McEWAN (CONTRACTORS)**, the Scottish-based civil engineering and building company, which forms part of Shanks & McEwan Group, has been awarded contracts worth nearly £51m for road and bridge building work.

The largest contract is a £35m order from the Scottish Development Department for the construction of 8.6 km of the M74, from Kirkpatrick-Fleming to Gretna. It is part of the total upgrading of the A74 trunk road to dual three-lane motorway and includes associated side roads and numerous bridges.

Another contract placed by the Scottish Development Department, worth £7.8m, is for the construction of the A1 Tower to Dunglass diversion which forms a bypass to the east of Cockburnspath and includes 4.2 km of single carriageway, three bridges – one of which crosses the Edinburgh to London east coast railway line – and a number of other structures.

The third contract, worth £7.9m, has been awarded by Tayside Regional Council. It covers the construction of phase 12 of the Dundee inner ring road, a length of dual carriageway in the centre of Dundee, with associated reinforced concrete structures.

Other contracts recently awarded to the company include alterations and extensions to Hawick High School, worth £4.5m, awarded by Borders Regional Council, and extensions to Alloa sewage treatment works, worth £3.61m, awarded by Central Regional Council.

# Amey wins £43m orders

*AMEY CONSTRUCTION* has received contracts totalling £43m in the past two months, with £25m won in October and £18m in September.

Heading the list is a £15m contract for the A27 Patcham to Coldean section of the Brighton bypass.

Other roadworks include the Gillingham relief road in Dorset, reconstruction of part of the A34 Oxford bypass between Botley and Hinksey, and new roads for the Telford and Milton Keynes Development Corporation.

Civil airport works include the elevated airport link to the new terminal building at Manchester, taxiway reconstruction at Gatwick, and the Lithgow staff car park at Heathrow.

In addition, there are defence works at RAF Machrihanish and RAF Buchan in Scotland, and RAF Cottesmore in England.

There is also an order for Welsh Water at Trearddur Bay plus a number of motorway and road planning contracts for the newly-acquired Asfare.

# Norwich bypass project

**MAY GURNEY & CO**, Norwich, has won the contract for the next phase of the Norwich southern bypass for an estimated £15m. Work starts soon for completion in two years.

The contract covers 7km from the Trowse bypass to just east of the A11 Cringleford bypass. It includes an interchange on the A10 Ipswich road, two railway bridges and six road bridges. The order was placed by the Department of Transport.

★ ★ ★

**CEMENTATION MINING**, a member of the Trafalgar House Group, has been awarded contracts by British Coal valued at £10.4m. The two most recent are for underground drivage works at Point of Ayr, north Wales, and Whitemoor, Selby.

Other contracts are for repairs to underground roadways at Littleton Colliery; for drivage of a roadway for development of a new coal face at the Bickershaw complex; and for drivage of main access roadways to a new working area at Silverdale Colliery.

★ ★ ★

**ALFRED McALPINE CONSTRUCTION** major projects has won a £14.3m contract from the Department of Transport to build the second stage of the Brighton bypass, the Muddleswood to Patcham section, 5.6 km long.

Structures include six bridges and four retaining walls. The 133-week project starts this month.

★ ★ ★

**KIER CONSTRUCTION**, part of Beazer, has been awarded a £14m contract at the Sizewell B nuclear power station.

Placed by Nuclear Electric, the order includes the provision of a garage, administration buildings, a workshop, stores and a gate house. The contract starts in November.

ARCHITECTURE

# Where the gods must dance at night

**Colin Amery** hails the restoration of Spencer House

Northumberland, Norfolk, Devonshire, Harewood, Chesterfield, Cumberland, Londonderry, Grosvenor, Montagu, Carrington, Dorchester, Pembroke, Buckingham, Portman, Harcourt, Derby, Bedford ... the litany of names is long, and each one represents a great London house that has been demolished. The physical destruction of the aristocratic palaces of London has been a slow and tortuous process. At certain times the pace has quickened – war and crippling taxation have taken their toll. Traffic, hotels and the rewards of property development have speeded the decline.

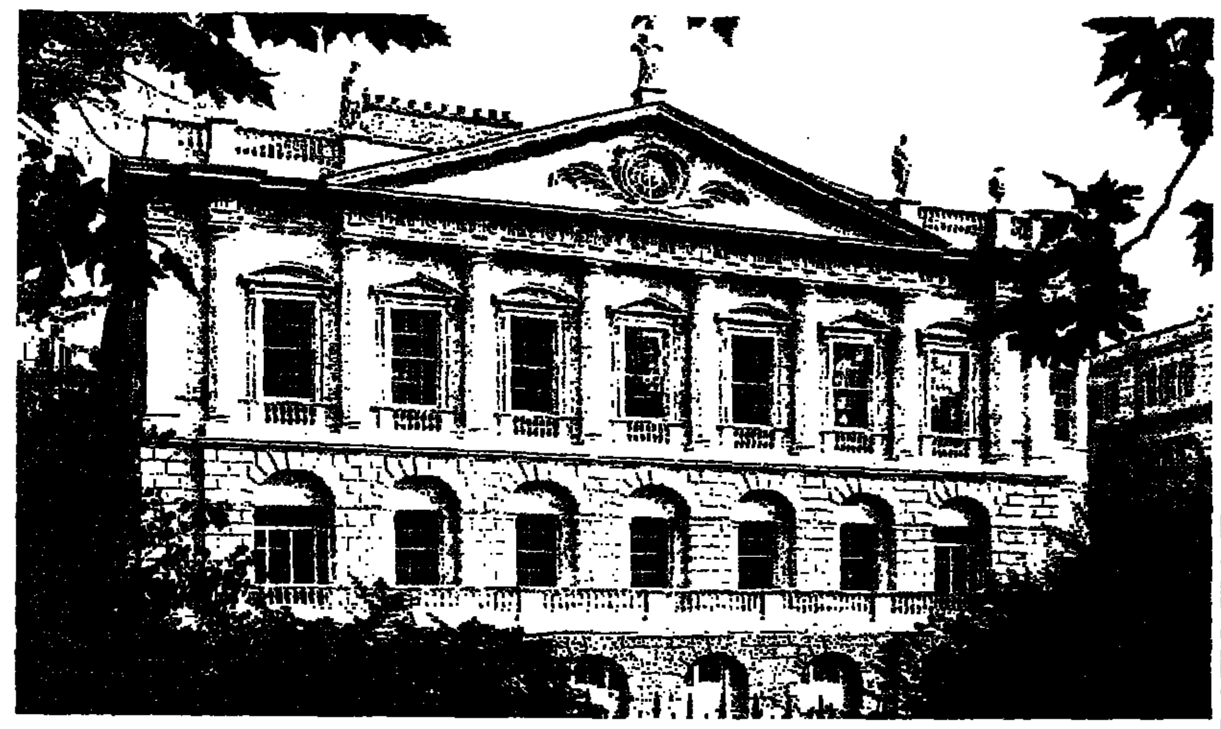
The British preference for life in the country, where the acres you see from your windows belong to you, has also encouraged the demise of grand living in London. Country houses may have benefitted from the sales of London property, but London is much poorer than Paris or Rome when it comes to the surviving numbers of town palaces and their collections.

A reminder of the quality of these lost houses and of the splendour of their world is shortly to be officially unveiled. Spencer House in St. James's on Green Park was built between 1756 and 1766 for John, first Earl of Spencer. He was a patron and collector of the utmost discernment and a key figure in the story of Spencer House. The other key figure is the present Lord Rothschild, whose company RIT Capital Partners plc purchased a long lease from the Trustees of the Spencer Estate in 1985 and proceeded to restore the house. Today it fulfils a sensible combination of uses – the state rooms being used for meetings and entertainment and the less important parts for offices.

What has been achieved at Spencer House represents a model restoration of an historic building. It was appropriately the setting for last week's symposium of the World Monuments Fund and delegates could see for themselves the beauties of this remarkable house. Keen eyed delegates will have noticed that the quality of the restoration is closer to the work of continental restorers than it is to the recent unfortunate treatments of The Queen's House in Greenwich, and Somerset House; it is living proof that the correct combination of talents does exist in England and the use of a multitude of wise advisers can, with the help of intelligent patronage, produce fine results.

All the official bodies – English Heritage, The Georgian Group, Westminster City Council – proffered advice and help but I am sure it was the impetus and work of a powerful private company that ensured speedy success. The architects were Rolfe Judd, the interior designer David Mlinaric, the master carver Dick Reid from York, and Taveners were the decorators. The full list of people involved in the restoration is endless and it is often the work of an unsung gilder or polisher of scagliola that has achieved the most amazing visual effect.

Without question one of the most important historic buildings in London, the great beauty of Spencer House has survived despite some war damage and an extraordinary variety of occupiers from The Ladies' Army and Navy Club to Messrs Christie's and the Economist Intelligence Unit. When it was built in the 18th century, it was one of the grandest private houses and it remains the most beautiful of the few that survive. It marks a turning point in English architectural history from Palladianism to neo-classicism. The piano nobile is one of the finest suites of Greek Revival rooms in the country. I feel that the painted room on the first floor is one of the most exquisite rooms in London, if not in England.



Spencer House, seen from Green Park: a reminder of London's lost houses of splendour

As his architectural adviser the first Earl Spencer consulted Colonel George Gray who was one of the more prominent members of the Society of Dilettanti, a group devoted to the promotion of the classical style in England. His architect was John Vardy who had trained under Lord Burlington's protege, William Kent. The glory of Spencer House is the triumphant way it conjures up the classical world, a vision of Georgian confidence that looks over the picturesque landscape of Green Park. Its decoration is Arcadian, suggestive of festivals, fertility, harvest and the benign presence of the gods enjoying a perpetual spring.

Ceres, Bacchus and Flora grace the pediment that faces the park above the Doric order of the main floor. The frieze carries sacrificial ox skulls and shallow plates (patera) for drinking libations to the gods. You enter the house through a door set in an arch of triumph leading to a sombre Roman vestibule that is rich in the symbols of sacrifice. Imagine the excitement in the 18th century of placing above the chimney piece a cast of a relief of Antinous from Hadrian's villa which had only been excavated in 1730.

The progression in Spencer House is from stone solemnity to gilded grandeur. The great rooms of assembly are on the first floor and they are now sumptuous and glorious. Enormous care is being taken to reinstate furnishings and fittings – many of which were removed for safety during the war and have been permanently installed at the Spencer seat at Althorp. Chimney pieces are being recarved, pier glasses carefully copied, and also some of the original furniture.

The house has been fortunate in securing some fine loans. The Royal Collection has lent five canvasses by Benjamin West, which were commissioned by King George III for the Warm Room at Buckingham House. Three of these, showing the deaths of heroes, hang in the dining room at Spencer House which was altered by Henry Holland. The Royal Academy has lent its late 18th-century copy of "The School of Athens", and original Vardy furniture designed for the house has been lent by Temple Newsam and the V & A museums. It is a particular pleasure to see the furniture designed for Athenian Stuart's painted room, and modelled directly on antique examples, restored to the room from its more recent home at Kenwood.

Nothing matches the excitement of seeing Lord Spencer's room with Vardy's palm-fringed alcove. Did the ladies drink exotic teas here between the blackamoors while their men were more bibulous in the dining room? Today it glistens with new gilding, the alcove richly covered with Palmyra sunflower rosettes – a setting as festive as you could desire.

Spencer House will be opened on certain weekends in the summer after April next year. There can be no doubt that the restoration is a rare triumph of scholarship and taste. When the house is quiet at night I have no doubt that the gods are dancing.

# I Capuleti e i Montecchi

**GRAND THEATRE, GENEVA**

Bellini's Romeo and Juliet opera rarely features in Europe's theatre schedules – but when it does, it seems to enjoy remarkable good fortune. This Geneva production was no exception. It was, above all, splendidly sung. It also had the advantage of a stimulating and dramatically coherent staging, something that can by no means be taken for granted in early-Ottocento Italian opera.

Unlike the Covent Garden performances a few years back under Muti, there was no galvanising personality in the pit. But the overall impression was one of complete visual and musical harmony. How rarely one can say that about any opera production!

This was another example of the felicitous casting that has become a Geneva trademark. The principal couple, Martine Dupuy and Cecilia Gasdia, were finely matched in vocal timbre, physical stature and dramatic fervour. Miss Gasdia's Giulietta benefitted from the resolute Mediterranean temperament that has distinguished all her Rossini and Bellini heroines – she has impeccable dramatic instincts and an expressive intensity that belies her doll-like appearance.

The individual way in which she took hold of the vocal line made for a particularly striking opening Cavatina: there is a tender and fragile quality in the voice, ideal for this role, which in the past has led to a certain waywardness. Here, however, she showed an exemplary command of the Bellinian cantilena, delicately varying tone and phrasing, and never resorting to either histrionics or to virtuosity for its own sake.

Miss Dupuy's Romeo was beautifully proportioned – gallant rather than impassioned, occasionally uncomfortable in the lower register but otherwise gliding over the role's technical hurdles.

Fine supporting performances from Jacob Will as Capellio, Harry Peeters as Lorenzo and the Tebaldo of Robert Swenson, an American tenor who has a lovely voice but not enough of it.

Bruno Campanella's precise, vertical approach to the score was safe rather than exciting; but the front-desk players of the Suisse Romande Orchestra distinguished themselves in Bellini's copious instrument obligatos, and the chorus goes from strength to strength in the production.

Taking his cue from Romani's un-Shakespearean libretto, the stage director, Robert Carsen portrayed the lovers as victims of the unending conflict between two powerful families, dressed in traditional costumes of contrasting red and black.

The two sides engage in a stylised battle on the inner stage revolve at the end of Act 1, are reconciled in Giulietta's dreams in the Tomb Scene, and draw swords again at the final curtain.

As in Carsen's contrived Lucia production last year in Zurich, the heroine's fate is governed by the interests of a male-dominated society. But in this case, the concept discreetly illuminated the drama instead of overwhelming it. Dominated by Michael Levine's massive red panelled facades and lit with dark, atmospheric detail by Davy Cunningham, the whole performance radiated theatrical poise and logic.

**Andrew Clark**

# Siobhan Davies Dance Company

**SADLER'S WELLS**

It is the feel of Siobhan Davies's dances that is appealing. We see a dancer stretching an arm out into space, and then the torso surrendering to that impulse and bending this way or that. Sometimes the legs stand braced, and there's an interesting tension in how the torso leans way off its vertical. Sometimes the legs are compliant, either by dipping and bending or by carrying the impulse over the ground. The movement keeps shifting between soft and firm: an attractive texture, with an especially beautiful use of the spine. This is not movement you or I could do, but it feels natural to us.

It feels sensitive, too. Davies's dances are not about specific emotions, but even the solos are full of different kinds of tenderness, supportiveness, responsiveness. The dancers respond to space itself, to the call of the moment, to each other, to the movement's current, and sometimes they are answering several visible or invisible calls at once or in quick succession. Again, that couldn't be us up there doing that, and yet doesn't it catch the way we often feel in our daily life?

I say all this, I admire how her pieces are made, I know that they have a store of detail that would reward repeated viewing ... and yet my heart's not in it. Not in the pieces she makes for her own company, that is. When she choreographs for the Rambert company, however, I'm excited. Her three Rambert works since 1988 have a slicing attack and a richness of phrase that are sheer tonic. The Rambert dancers have feet, legs, jumps and speed, and she uses all that to enrich her palette. The dancers in her own company are beautifully articulate, but what they're doing is lyricised pedestrianism. There is something more-sensitive-than-thou about them that makes me want to kick my neighbour.

Alastair Muir

Paul Douglas in 'Different Trains'

Davies founded this company in 1988. Its work has been widely admired, and this short season is, I think, the first time a one-choreographer British dance company has made it to Sadler's Wells. (The company repeats this programme on November 26 at the Queen Elizabeth Hall.) White Man Sleeps has been revived from the 1988 season. Now as then I find it subtle, intricate and bland, too neatly studied with gesture-motifs, and too studiously allied to each shift of tone in its eponymous score (a string quartet by Kevin Volans). Peter Mumford's lighting, as ever, does wonders in dramatising the space.

*Different Trains*, her new work, is the finest piece she has yet made for her own company. Its subject is the score (eponymous again) by Steve Reich, which uses string quartet, three layers of taped string quartet, spoken text, and train sounds. Reich contrasts different train journeys in "America – Before the war", "Europe – During the war", and "After the war", and voices speak fragmentary lines from various personal stories. Davies's choreography is similarly made up of separate threads. One dance after another contains fleeting hints of partly-told narrative, and most of them convey a sense of journeying. Davies has even made Scott Clark – a dancer who has hitherto enclosed himself in some narrow cylinder of private space – project characterfully. He has become a character, not just a kinesphere, and his dancing is alive with tone and contrast.

There are, however, other reasons why even this accomplished, interesting work doesn't wow me (it does others), and I will list them briefly. Its pressure is too even from first to last. Its characters and situations change, but they do not grow. David Buckland's decor – a fascinating work of art in itself – is overbearing and intrusive. And, for all its conscientious attention to its score, this isn't choreography that helps you hear music better. Come to think of it, I find these same drawbacks in most pieces Davies has made.

**Alastair Macaulay**

# Gewandhaus Orchestra

**BARBICAN HALL**

Both the future and the past loomed large at the Leipzig Gewandhaus Orchestra's concerts last week. Now that German unification is complete, this orchestra, always one of the most widely-travelled from Eastern Europe, should become a frequent visitor. This month it has been to four British cities and a major European tour is already planned for 1993, when it celebrates its 250th anniversary.

The Leipzig Gewandhaus is the oldest concert orchestra in Germany, a heritage of which it is understandably proud. To illustrate its history a substantial booklet was being given away describing the long relationship between the orchestra and Brahms. It included a full chronology of the performances Brahms gave at the Gewandhaus, which included all four of his symphonies and the two piano concertos.

*As these were the works in* the three Barbican programmes, there could be no doubt as to the spirit in which the concerts were being promoted. Under Kurt Masur's direction, together with Sawallisch, arguably now the leading interpreter of the German classics, these were to be "authentic" performances in the other sense of the word: traditional, idiomatic, rooted in history.

*And so*, by and large, they proved. But it has to be said that the virtues of this style of performance were a long time making themselves felt. Reports from the opening concert, which I did not attend, were unenthusiastic; the second, on Thursday, made a disappointing start. Masur led a flat account of the Third Symphony, swift and genial, but otherwise quite featureless and so dominated by the strings that wind and brass made no impression at all.

The two concertos fared somewhat better. Alfred Brendel is no less experienced a Brahms interpreter, though his instincts have led him to different conclusions. The D Minor Concerto was cool and contained (a world away from the fireball performance that Bishop-Kovacevich gave us when the Royal Concertgebouw was on its tour last year); the B flat warmed more readily to the music's lyricism. In both, though, there was a didactic quality about the playing, where one wanted spontaneous involvement.

*At this point, mid-way* through Friday's concert, it may have seemed that the Leipzig Brahms tradition was losing its potency. But then Masur led his players into as fine a performance of the Fourth Symphony as I have heard, lingering so long over the very first note that nobody can have been in any doubt that music-making of the most loving, inspirational kind was to follow. The symphony has never seemed more lofty: this, at last, was Brahmsian passion on the grandest scale.

**Richard Fairman**

# Wolfgang Holzmair

**WIGMORE HALL**

Holzmair made his London recital debut last year in the Wigmore Hall to much praise, and his return for two recitals this week was generously subscribed. On Wednesday with the pianist Gérard Wyss he presented a short yet highly concentrated programme of Heine settings – Mendelssohn, six of Schubert's *Schwanengesang*, and Schumann's *Dichterliebe*.

It was a compelling evening. Holzmair's light baritone (he lists Pelléas among his operatic roles, which would be worth hearing) is used incisively; it spits out syllables as convincingly as it can float a phrase.

The Mendelssohn songs, ending with "Auf Flügeln des Gesanges" were perhaps a little anodyne, suggesting that the singer is happier when given something more to do than simply to convey benign lyrical effusion.

But starting the *Schwanengesang* selection with "Der Atlas" broke the mould; at several points in the group he stretched his sense of line almost to breaking point, hollowed out the tone, emptied a phrase of inflection. It was vivid Schubert singing, maybe not to all tastes, but certainly hard to ignore.

Wyss had seemed a rather leaden partner in Schubert, perhaps deciding that such a vision of the songs required a neutral backdrop, but he gradually came to life in the *Dichterliebe* preludes and postludes. Holzmair was more restrained here; the thunder-and-lightning had gone, and the half shades returned to the voice again.

There were some beautiful conceptions – "Die Rose, die Lilie" caught on the wing, with seamless lines yet no sense of fuss or bluster, "Ein Jüngling liebt ein Mädchen" simple and direct, the irony just flecked in – while "Im Rhein, im heiligen Strome" and "Ich grolle nicht" received the full assertive force. The last three songs fell away slightly; the focus was lost, the pacing became uncertain. But Holzmair had already confirmed last year's promise.

**Andrew Clements**

SALEROOM

# Records set at Paris porcelain auction

The four-day sale of the art collections of Parisian ceramist Camille Le Tallec in Paris last week confirmed the robust state of the French porcelain and faience market, set a number of record prices amid fierce competition between bidders, and witnessed an impressive series of pre-emptions by French museums.

Held by Jacques Tajan of *Ader Picard Tajan*, the sale totalled Fr26.4m (£2.68m) with only Fr2.5m worth of lots bought in. Prices frequently rose to double or triple their estimates, set deliberately low for Sevres porcelain in the light of disappointing results in that field in London and Monaco sales earlier this year.

*The first two days of the* auction were devoted to the rare books, furniture, paintings and drawings of Mr Le Talec who still works in his Paris porcelain company supplying Tiffany's in New York at the age of 84.

But the major attraction last week for private collectors and some Swiss, Belgian and British dealers, who were evidently immune from this season's economic salesroom blues, was the 400 lots of top quality 16 to 19th century French and European faience and porcelain auctioned on Thursday and Friday.

A majolica plate, circa 1520, sold for Fr550,000, more than twice its estimate, while a fine 18th century plate in Marseille faience with polychrome decoration estimated at Fr30-40,000 rocketed to a record Fr170,000.

A rare mid-18th century Nevers plate depicting two men playing tennis estimated at Fr50-60,000, established another all-time high, also at Fr170,000.

*Records for Strasbourg* faience were set with a beautiful 18th century oval dish and a rare 1745 rectangular tray from Paul Hannong's workshop, which were bought by collectors for Fr290,000 and Fr360,000, at double their estimates.

The Musée de Sceaux *pre-empted the sale of an* exceptional set of three 18th century potpourris in Sceaux faience which reached Fr100,000.

Three Sevres porcelain plates from a service made for Marie Antoinette rocketed to Fr20,000, 20 times their estimate, only to be pre-empted for the Chateau de Versailles. Competition among private collectors was fiercest for tiny cups, some barely two inches high, in richly decorated 18th century Sevres porcelain, the finest of which fetched over Fr50,000.

**Nicholas Powell**

# ARTS GUIDE

November 9-15

MUSIC

**London**

**Isaac Stern, Yo-Yo Ma and Emanuel Ax play Brahms.** (Mon). Royal Festival Hall.
**English Chamber Orchestra** conducted by Yehudi Menuhin in an all Mozart programme. (Mon). Barbican Hall.
**Monteverdi choir** conducted by John Eliot Gardiner in an all Brahms cycle. (Tues). Queen Elizabeth Hall.
**Royal Philharmonic Orchestra** conducted by Geoffrey Simon perform Walton's Belshazzar's Feast. (Wed). Barbican Hall.
**Isaac Stern birthday concert:** London Symphony Orchestra with Yo-Yo Ma, Isaac Stern, Emanuel Ax: Beethoven triple *concerto and violin concerto.* (Thurs). Royal Festival Hall.

**Paris**

**Orchestre Colonne** conducted by Bertrand de Billy, Lazar Berman,(piano): Tchaikovsky. (Mon). *Salle Pleyel* (45638873).
**Maria Joao Pires**, piano, Augustin Dumay, violin: Beethoven (Tue). Theatre des Champs Elysees (47203637).
**Vlado Perlemuter**, piano: Debussy, Ravel(Tue) Salle Pleyel (45638873).
**Rafael Orozco**, piano: Mozart, Schumann, Liszt (Tue) Salle Gaveau (49530507).
**Orchestre de Paris** conducted by Carlo Maria Giulini: Schubert(Wed, Thur) Salle Pleyel (45638873).
**Orchestre National de France** conducted by Neeme Jarvi, GidonKremer, violin: Paert, Schnittke, Sibelius (Thur). Théâtre des Champs Elysées (47203637).
**Mikhail Pletnev:** Tchaikovsky, Mussorgsky (Thur). Salle Gaveau(49530507).

**Frankfurt**

*The Leipzig Gewaldhausorchestra* under Kurt Mazur plays Brahms. (Thurs). Alte Oper.

**Amsterdam**

**Netherlands Philharmonic** and massed choirs, with Alexandra Coku (soprano) and Jard van Nes (contralto), Hartmut Haenchen conducting. Mahler's Second Symphony. Concertgebouw (Mon, Tues).
**Royal Concertgebouw Orchestra** conducted by Jakov Kreizberg, *with Frank Peter Zimmermann* (violin). Dvorak, Stravinsky. Concertgebouw (Wed, Thur).
**Berlin Philharmonia Quartet.** *Reger*, Beethoven. *Concertgebouw* (Thur) (718 345).

**Utrecht**

**Amsterdam Baroque Orchestra** conducted by Ton Koopman. *Mozart. Vredenburg (Thur).*
**Imogen Cooper** (piano) with the Netherlands Chamber Orchestra conducted by Antoni Ros-Marba. *Haydn, Mozart, Shostakovich.* Vredenburg (Mon).
**Juilliard Quartet.** Mozart, Wolpe, Schubert. Vredenburg (Mon).
**Netherlands Philharmonic** and massed choirs, with Alexandra Coku (soprano) and Jard van *Nes (contralto), Hartmut* Haenchen conducting. Mahler's Second Symphony. Vredenburg (Wed).

**Antwerp**

**New Belgian Chamber Orchestra** conducted by Jan Caeyers with Lluis Claret (cello) and Hakan Hardenberger (trumpet). Haydn. (Tues). De Singel.
**Helen Adams** (soprano) accompanied by Koen Kessels (piano) Lieder by Richard Strauss (Wed). Koninklijke Vlaamse opera.

**Brussels**

**Liege Philharmonic Orchestra** conducted by Pierre Bartholomee performing Beethoven's Eroica symphony. Palais des Beaux-Arts. *(Mon).*
**Moscow Quartet** playing Haydn, Schnittke, and Tchaikovsky. Palais des Beaux-Arts. (Tues).
**Liege Philharmonic Orchestra** conducted by Pierre Bartholomee with Ingrid Haebler (piano) performing works of Mahler and Mozart. Palais des Beaux-Arts. (Wed).
**BRT Philharmonic Orchestra** conducted by Georges Octors with E Van Oosthuysen (clarinet) K van Seueren (viola): Auber, Bruch, Coates, Delius, Resphighi, Rossini, Vaughan Williams, Walton. (Thurs). Maison de la Radio.

**Madrid**

**Mendelssohn Trio.** Montsalvatge, Schumann (Tues). Auditorio Nacional de Musica (337 01 00).
**Salzburg Mozarteum Orchestra** conducted by Thomas Koncz. Mozartprogramme (Thur). Auditorio Nacional de Musica (337 01 00).

**Bologna**

**Radu Lupu** plays Schubert and Mozart with the DeutscheKammerakademie conducted by Johanness Goritzki (Mon). Teatro Comunale (529999).

**Rome**

**Petersen Quartet** playing the six Mozart quartets dedicated *to Haydn (Thur). Teatro Olimpico* (393304).

**New York**

**Philadelphia Orchestra** conducted by Charles Dutoit with *Barry Douglas (piano). Varese,* Liszt, Rachmaninov (Tues). Carnegie Hall (247 7400).
**New York Philharmonic** conducted by Erich Leinsdorf. Stravinsky, Debussy, Beethoven (Tues); Erich Leinsdorf conducting with Malcolm Frager (piano). Copland, Dohnanyi, Schumann, Beethoven (Thur). Avery Fisher Hall, Lincoln Center (874 6770).

**Washington**

**National Symphony** conducted by Mstislav Rostropovich with William Steck (violin). Nicolai, Rosenman, Beethoven (Tue); Zdenek Macal conducting with Tzimon Barto (piano). R. Sierra, Mahler (Thur). Concert Hall, Kennedy Center (467 4600).

**Chicago**

**Leningrad Philharmonic** conducted by Yuri Temirkanov with Viktor Tretyanov (violin). Tchaikovsky (Tue, Thur). Orchestra Hall (435 3322).

FINANCIAL TIMES
NUMBER ONE SOUTHWARK BRIDGE, LONDON SE1 9HL
Telephone: 071-873 3000 Telex: 922186 Fax: 071-407 5700

Monday November 12 1990

# Five minutes to midnight

THE URUGUAY Round of multilateral trade negotiations stands on the brink of failure, following the breakdown of talks on farm reform over the weekend. As expected, proposals by the European Community, which imply further cuts in support of only some 15 per cent between now and 1996, have been roundly rejected by its partners in the General Agreement on Tariffs and Trade.

Developing countries, many of which have spent the last decade liberalising their own economies at the self-righteous behest of the industrial world, have a right to feel cruelly deceived by the EC's grudging attitude. It would be understandable if farm exporters such as Argentina concluded there was no further benefit in carrying on.

They should think very carefully before deciding to walk away from the table for good, however, because this new crisis must be overcome.

The Uruguay Round may be condemned to end modestly at best, but an unsatisfactory agreement would still be better than no agreement at all. That would surely lead to a virtually irretrievable breakdown of the trading system. Trade wars would proliferate and a subsidy race would start in agriculture that would leave smaller exporters even worse off than today.

Even a modest final result could retain some achievements of lasting value, notably in tariff cuts and dispute settlement. Much more might have been possible had it not been for the astonishing and lamentable lack of leadership that has been displayed throughout by both the US and the EC.

### Barely credible offer

The latter in particular deserves much of the blame for the present debacle. Europe has had four years to prepare for meaningful cuts in farm support. Yet it delayed until the last minute before coming out with an offer that is barely credible in terms of its own previous commitment to progressive and substantial reduction in support.

That Europe's leaders, both at the national and Commission level, should have proved so spineless in dealing with their farmers is a mark of shabby parochialism, ill-suited to their claims to bold vision for the Community of the 1990s. It has led them to hazard the future of the entire world trading system for the sake of farmers who produce less than 3 per cent of EC Gross Domestic Product and account for just 8 per cent of its workforce.

### Equal cowardice

Unfortunately this coincides with an almost equal cowardice on the part of the Bush administration which has brought the discussions on liberalising trade in services almost to a halt by insisting on pandering to every last vested domestic interest. Japan, which might also have been counted on to provide some leadership, has meanwhile retreated into smug silence, glad only of the excuse to keep its rice market off the table.

The industrial countries must now quickly recover the vision with which they launched the Round. For the EC this means promising, at the very least, to extend cuts in farm subsidies beyond 1996 and erring on the side of generosity elsewhere. It should reopen its offer to reconsider the possibility of specific curbs on export subsidies and drop the increased protection it allows for oilseeds and corn gluten feed. Elsewhere it should relax its stringent conditions for liberalising trade in textiles, and abandon forthwith its claim to selective emergency import restraint under Gatt's safeguard rule. The US should finally offer some real concessions in both services and textiles.

The developing world and the Cairns Group of 14 farm exporting countries will have to help rescue the main powers from their own folly and incompetence. They cannot do this by walking out. They must keep up the pressure on the EC, US and Japan to negotiate in good faith.

Above all, however, Washington and Brussels must back away from the self-serving approach that has nearly brought the Round to disaster. This is not only dangerous in economic terms at a time of looming world slowdown. It also risks fuelling political instability in the developing world and eastern Europe just when global co-operation is needed to overcome the crisis in the Gulf.

# Modernisation of Ireland

THE POWERS of the president of the Irish Republic are very limited, not much different indeed – although Ireland has a written constitution – from those of the British monarch. In a political crisis, the president has absolute discretion to refuse to dissolve the Irish Parliament even if the prime minister of the day has lost his majority. But that kind of thing does not happen very often. For the rest, the role of the presidency is to set an example – social, cultural and intellectual – to the rest of the country without becoming involved in partisan politics.

That is why the election of Mrs Mary Robinson is regarded as a break with the past. In other European countries, the choice of a woman, even a relatively young woman like Mrs Robinson, would scarcely be regarded as a sensation. She is, after all, a successful barrister who has worked hard for her success and is not new to to the political scene. But Ireland is different. It is a small country which remains in many ways extraordinarily conservative. It also tends to be dominated by a political machine: Fianna Fail has never before seen its candidate for the presidency fail to be elected and would probably have succeeded again this time had it not made such a mess of the campaign.

### Modern world

Still, Mrs Robinson has won. Her views differ from conventional, conservative Irish thinking on a number of issues: abortion and divorce, for examples. She has some understanding of the position of the unionists in the north, having resigned from the Irish Labour party because the unionists were not consulted about the Anglo-Irish agreement of 1985. Above all perhaps, she appeals to the young, and Ireland as a country has an usually large number of young people. They admire here because she is different, is not part of a machine, and because she seems to belong to a more modern world than the traditional Irish politicians.

This question of the modernisation of Ireland is crucial. In the past few years the Irish government has received a series of plaudits for its handling of the economy. And it is true that the coalition led by Mr Charles Haughey – perhaps precisely because it *is* a coalition – has succeeded in substantially cutting back on government borrowing, reducing inflation and achieving an annual economic growth rate of around 4 per cent. In the last budget, it was even able to lower the main tax rates.

### Welcome improvement

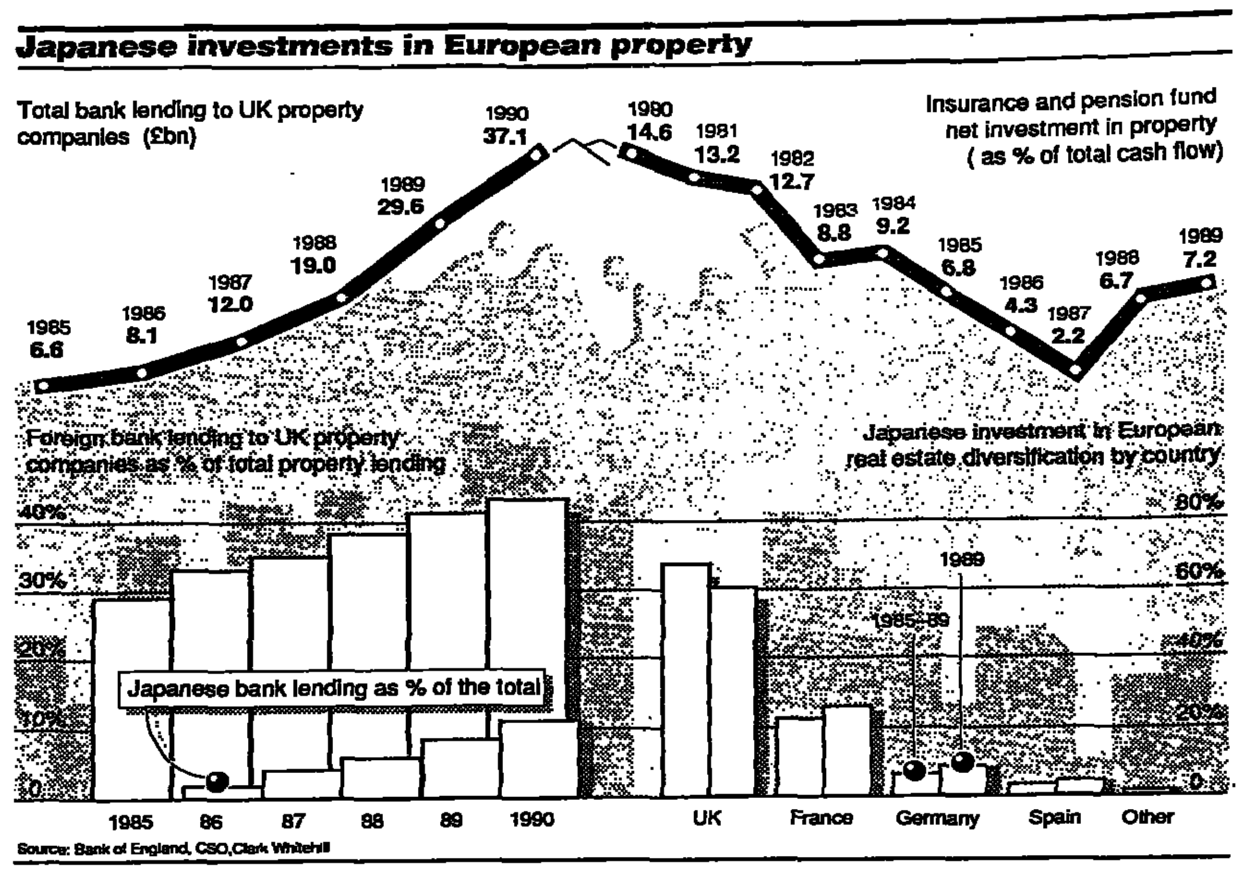
That is a welcome improvement on the performance of much of the earlier 1980s. Concentrating on the gains of 1987-89, however, can lead to overlooking the very low base from which the Irish economy starts. Ireland is geographically the most peripheral country in the European Community. When the Channel tunnel is complete, it will be the only one without a fixed link to the continent. Its Gross Domestic Product per head is not only below the Community average but below that of Britain. Irish unemployment seldom falls below 15 per cent, a statistic which helps to explain the steady drain of some of its best people abroad.

Moreover, for all its diversification, the Irish economy is still heavily dependent on Britain, which accounts for around one third of Irish exports. Only 5 per cent of Irish exports go to the north. Thus the economy will be hit severely by a British recession, just as Irish agriculture will be faced with increasing competition from eastern Europe.

Those matters are nothing directly to do with Mrs Robinson and it would be quite of turn if she were to use her new office to make overtly political speeches. Nevertheless, they illustrate how far Ireland has to go if it is to catch up with modern Europe. The Irish have tended to get by on a mixture of charm, eccentricity and (more recently) Community subsidies. Having shown that they can break with the past politically, they now have to meet the economic challenge over the long haul. One way to start would be to develop economic links between north and south.

Britain's relatively open financial system is feeling the pinch of excessive property lending, writes **John Plender**

# The bankers' house of cards



Source: Bank of England, CSO, Clark Whitehill

The severe depression in Britain's commercial property market will shortly prompt a painful round of increased provisions and *write-offs* among the banks. The sense of *déjà vu* is inescapable. It was the property market that came close to undermining the whole financial system in the mid-1970s and the subsequent clean-up lasted for more than half a decade. How, then, are we to explain this latest lapse of collective memory on the part of the bankers?

It is not as if the over-supply of property was unforeseen. In the City of London office market, which accounts for a disproportionate share of the value of all UK property, agents and pundits were pointing to the risks of over-supply throughout the second half of the 1980s. Mr Robin Leigh-Pemberton, governor of the Bank of England, cautioned more generally against excessive exposure to property as early as 1987. Yet bankers still contrived to generate a bubble whose consequences will take years to unwind.

Part of the explanation for this aberration no doubt lies in the structural problems that beset the commercial banking sector. Deregulation and the permanent loss of large corporate business to the commercial paper and bond markets have played havoc with profit margins, and the lending bankers' response has been to take increased risks on poorer quality business. Yet there may be a further, and largely unexplored, explanation that relates to the different rates at which globalisation has been taking place in banking and capital markets.

The assumption that underpinned much property lending in the 1980s was that the banks would provide short- and medium-term finance for development which would then be refinanced when longer-term institutions such as insurance companies and pension funds absorbed the completed properties into their portfolios. Yet it became a more risky assumption as the decade progressed, for the rise in property yields (and consequent collapse in prices) in the early 1980s caused widespread disillusionment among the institutions over the merits of property as an investment.

That disillusionment is reflected in the decline in the proportion of cash flow that insurance companies and pension funds devoted to property (see chart), which dropped from nearly 15 per cent per cent in 1980, to little more than 2 per cent in 1987, recovering only part of the lost ground to something over 7 per cent in 1989. Yet bank lending to property rose spectacularly over the period, especially towards the end. In the five years to August 1990 bank lending to property companies rocketed from £6.6bn to £37.1bn (see chart). Nor was this simply a reflection of the more general credit expansion that marked that period. Property lending went from 4.4 per cent of total bank lending in the UK economy to 8.4 per cent over the same period.

The full extent of the aberration can best be expressed in terms of how many years it would take the institutions to absorb all those billions of pounds-worth of bank-financed property. On the (charitable) assumption that half the outstanding bank debt has been raised by well-capitalised companies that are able to repay loans out of cash flow, property lending has gone from the equivalent, in 1986, of less than two and a quarter years-worth of the institutions' annual outlay on property (averaged over five years) to 13 years today.

Moreover, the risks may be greater for the banks than the bare figures indicate. Much lending has been on a US-style limited recourse basis, whereby the banks' redress, in the event of trouble, is primarily against the building rather than the developer. Some outside estimates put the proportion as high as 40 per cent.

The first clue as to what was really going on comes from the high proportion of the £37bn overhang – no less than 43½ per cent – contributed by foreign banks. Still more striking is the Japanese banks' contribution, which went from almost nothing in the middle of the 1980s to 10½ per cent of total property lending by 1990 (see chart). Strip out the Japanese component and the other foreign banks' share of property lending falls to 33 per cent – which is almost exactly the same as the foreign banks' share of total bank lending in the UK.

This suggests that Britain pays a price for the openness of its markets and the fact that London operates as the Clapham Junction of the international financial system. Surplus international liquidity clearly spilled over into a domestic system that was already overheating in the late 1980s. Froth was then added to the credit expansion as the Japanese banks started to export their own more spectacular domestic property bubble to the UK. Perhaps the Governor of the Bank of England should have delivered his warnings about excessive property lending in Japanese.

In theory the liberalisation of international capital flows should make for a more efficient allocation of resources. Yet in this instance the opposite appears to have been the case. The trouble arises partly because the international banking system operates almost too efficiently in global intermediation: any property lending proposition in the UK is likely to be quickly appraised by innumerable banks with head offices as far afield as Los Angeles or Osaka. Yet the flow of longer-term international savings is extremely inefficient, because few fund managers around the world match their domestic liabilities with foreign currency assets.

For most of the 1980s net overseas investment in UK property was insignificant. Then in the last two years of the decade it took off, finding an outlet most conspicuously in the London office market. Debenham Tewson & Chinnocks, the surveyor, estimates that foreign investment went from less than £400m in 1987 to about £2bn in 1988 and more than £3bn in 1989. Chief among the buyers were those

**Foreign inflows have helped reduce over-supply in the market. But not enough to hold out any real hope of taking the bankers off the hook**

countries that had recently lifted restrictions on direct and portfolio investment overseas and whose surpluses of domestic savings were reflected in balance of payments surpluses and matching capital outflows.

At the forefront were Sweden, where the relaxation on overseas investment coincided with new restrictions on office development at home, and Japan, the biggest foreign player in the market; but the Dutch also made an early contribution which is largely excluded from the figures because it took the form of wholesale purchases via company acquisitions. The pattern was fairly uniform. An initial investment by foreign property investment and development companies tended to be followed by a flood of cash from long-term investment institutions.

Once again the openness of the UK market resulted in a disproportionate inflow relative to continental Europe. In a recent study the accountancy firm Clark Whitehill estimated, for example, that the UK had attracted 67 per cent of all Japanese inward property investment in Europe between 1985 and 1989, with France attracting 23 per cent and West Germany a mere 6 per cent (see chart).

These foreign inflows have clearly helped reduce over-supply in the market, but not enough to hold out any real hope of taking the bankers off the hook. And in the second half of 1990 anecdotal evidence from the property market suggests that foreigners have woken up to the market's problems and curtailed the flow.

Some smaller financial institutions in Sweden have run into trouble through their involvement in UK property. In the Netherlands a leading property fund, Rodamco, which made an abortive bid in Britain for the giant Hammerson property group in 1989, having earlier bought Haslemere Estates, spent £700m in a vain attempt to support its shares at asset value as 20 per cent of the shareholders sought to sell. Exposure to the British property market was partly responsible for this dramatic loss of confidence in the shares. As for the Japanese, they are withdrawing capital from foreign markets to take advantage of the more attractive yields now available at home after the stock market and property collapse.

In short, the property inflow from overseas is lumpy, volatile and small in relation to the equivalent banking flow; and the chances are that the potential for exchange rate stability provided by Britain's entry into the exchange rate mechanism of the European Monetary System will initially do more to boost sterling bonds than property. The *Clark Whitehill* study also suggests that there is a growing tendency for the Japanese to reduce the proportion of investment going into Britain as against continental Europe. And there are notable absentees from the list of foreign investors, reflecting the way in which many foreign lenders in UK property come from countries where the portfolio demand for foreign property is inhibited by differences in regulation and financial structure.

Germany is the most striking instance. Not only is there no significant funded pension system, but the insurance companies have traditionally matched their liabilities with fixed interest investments rather than equity or property; and there remain tight controls over the amount that life insurance companies are allowed to invest in overseas assets. The German banking system is therefore obliged to play a disproportionately large part, relative to portfolio outflows, in recycling a current account surplus equivalent in 1989 to 4½ per cent of GNP.

There is, then, a mismatch here: globalisation is marching at very different rates in the credit markets and the long-term savings markets. And the accident rate in both markets, as institutions venture outside familiar domestic terrain, is likely to be high. Property is, after all, a business where local knowledge is crucial to a successful outcome. The Japanese banks will thus do well to escape the fate of the US banks that plunged so disastrously into UK property for the first time in the early 1970s. And it will be surprising if the Japanese, Swedish and Dutch institutions entirely escape the fate of their British opposite numbers in the late 1970s, when such giants as the ICI and Unilever pension funds ran up huge borrowings on troubled property developments in France and Germany.

Equally striking is the impotence of banking supervision in the face of globalisation, which underlines the *potential conflict inherent* in the Bank of England's role as both promoter of the City's international activities and prudential supervisor of the banking system. Released from the straitjacket of a tightly regulated domestic market, a battalion of Japanese bankers appears to have made a consensual charge at the very peak of the market – just as they appear to have done with US leveraged bids and buy-outs. Who, in Tokyo, has kept a grip on the quality of their loan books? And who, in London, knows how the risk in that £37bn of outstanding bank lending is spread between property companies, banks, and investment institutions? Information on the extent to which liabilities are swapped and hedged in the British financial system is too fragmentary to permit a broad assessment.

The Japanese banks' exposure in London may not be large in relation to capital, but it is probably enough to cause some pain in profit and loss accounts that are now denied easy dealing profits by the Tokyo stock market collapse. For the markets in London it is another matter. Decisions of small importance in Tokyo can deliver large shocks in Europe. Put another way, London's international role has led to its being caught by the backwash of huge tidal waves from which the less open systems of continental Europe enjoy greater protection. Once again financial liberalisation has proved to be a more complex process than many of its advocates expected.

# OBSERVER

## Pursuit of the lead

■ Whatever Margaret Thatcher's feelings about Michael Heseltine's possible bid for the UK premiership, the cliff-hanger is fraying the media's nerves.

The worrying question for journalists is not will he or won't he? It is whether he will decide either way unexpectedly and out-date their painstakingly written "should-he, shouldn't-he?" stories before they reach the public.

Being risk-averse, Observer will confine itself to cautioning the former defence secretary about the encouragement Tory leaders in his Henley-on-Thames parliamentary constituency are giving him to stick his head above the parapet.

That was precisely what Union General John Sedgwick did at the Battle of the Wilderness in the American Civil War, against the express advice of his closest military advisers. Hence his famous last words:

"Nonsense, they couldn't hit an elephant at this dist...."

## Hong Kong hunt

■ Meanwhile Heseltine's constituency is providing another source of annoyance to Thatcher. The Henley-based company Intro UK is going against her wish that Britain *should not be seen to jeopardise* Hong Kong's prospects under Chinese rule by enticing away its human assets.

The prime object of granting British passports to some 50,000 families there was to *make them feel* secure enough to stay put through the handover in 1997. Nevertheless the Hong Kong government is already worried by the brain drain, with departures running at 1,000 or so a week.

So far most have gone to Canada and Australasia although Hungary as well as the French are making special efforts to win a share of the available talent.

Intro now plans to bring UK employers into the lists by staging a recruiting fair in the territory's exhibition centre in April, at which they can meet and sign up local citizens with skills in such work as electronic and software engineering, finance and law. "A lot of professional people there did their degree studies in Britain – which we think will be a lure," said Roger Wain-Heapy, the company's marketing director.

The Hong Kong government is not so sure. "The UK is not popular with people here," an official commented. "I don't think many will come unless they're offered full passports as well as jobs.

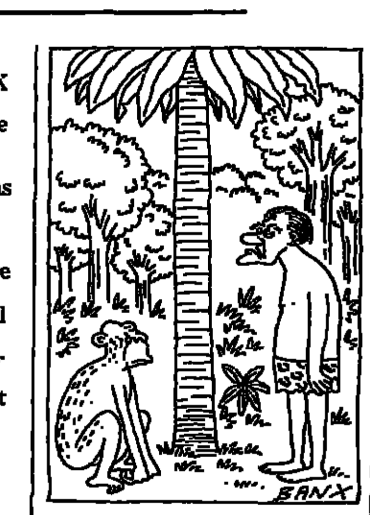
"But even if they did, it wouldn't necessarily be all bad," he added. "It might get China's leaders to see that, if they want Hong Kong to go on being successful, they'll need to give guarantees making it attractive for people to carry on working here. And Margaret Thatcher would have the excuse that Britain's part in it was just the play of market forces."

## Longer shots

■ Irish bookies had a busy time taking bets on the outcome of the recent presidential election. Those lucky enough to have placed early money on President-elect Mary Robinson, at odds of between 10-1 and 100-1, have reaped rich rewards.

But the political betting has not stopped. Dublin's bookies are now offering 6-4 on Alan Dukes, the embattled leader of the opposition, being replaced within the next three months, 4-1 that there will be a general election within the next six months and, as a long shot, 33-1 odds on both Mr Haughey, the Irish Prime Minister, and Mrs Thatcher going before Christmas.

And for the still longer term, how about 20-1 on Ireland's having a woman prime minister before the end of the century?



"You shake tree, me eat coconut."

## Horse sense

■ The UK has an accident to thank for its new machinery for resolving commercial wrangles without resort to the courts, officially termed "non-binding forms of alternative dispute resolution" or ADR. They will be promoted by the Centre for Dispute Resolution – scheduled to open on Wednesday under the Confederation of British Industry's watchful eye – which is the brainchild of London solicitor Eileen Carroll.

She says she decided to set up the non-profit centre as the result of falling off a horse.

The benefits of ADR first struck her two years ago in America while she was working on secondment to a San Francisco law firm. Impressed, she decided to write a book on the topic only to be told one had already been written by James Henry who, with the backing of US industry, had established a centre for promoting the project in New York.

When a reading of Henry's book left her feeling she could write a better one, she left the US to travel back by way of the Far East, still intending to burst into print. While on route she fell from the horse, and spent two weeks in a Singapore hospital followed by a further six laid up at home.

Although that seemed the ideal opportunity to start the book, the looming prospect convinced her it would be easier and more practical to set up a UK centre instead.

## Now we know

■ A victim of recession – a former marketing director now labouring for £3.50 an hour on a new bypass – has confirmed something he often suspected when he was driving around in a company car.

Highway-builders are addicted to radio programmes in which continuous pop music is punctuated by traffic news, he says, and like nothing better than hearing their own roadworks mentioned on the air. The longer the tailback, the better their chances.

One method of improving the odds is to lengthen the distance between temporary traffic lights without adjusting the timing, so only three or four vehicles get through at each change. "The looks on drivers' faces when that happens almost make up for no longer being one of them."

## Bite back

■ The French, still smarting from the lamb wars, are taking the fight into enemy territory. When Groupe Expansion, the French publishing group, held a lunch for clients at London's Cafe Royal this weekend not only did the menu include filet d'agneau rôti, but the wine was Mouton Cadet.

**Paul Betts** analyses the far-reaching review of civil aviation undertaken by the British government

# Juggling aircraft and agreements

Efforts to stimulate a renaissance in road and rail have dominated transport policy pronouncements in recent days. But with far less fanfare, the government has embarked on a more immediate and complex exercise to redefine the rules of British civil aviation.

The process will involve a series of separate but inter-related and equally controversial initiatives, the outcome of which will decide whether Britain can continue to maintain its leading role in European aviation.

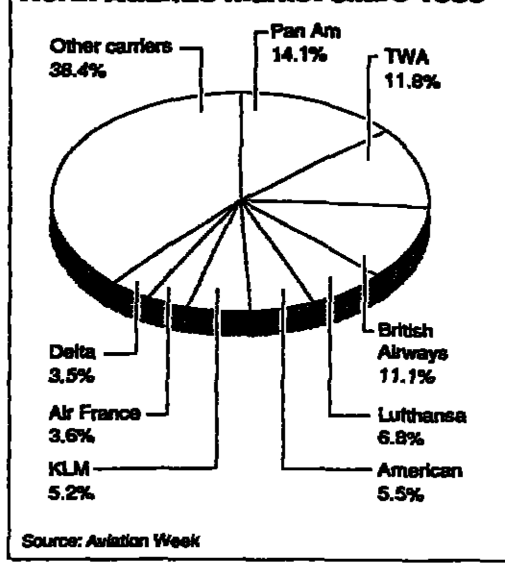
"All the plates are being thrown up in the air at the same time. Let's hope we will be able to catch them when they start coming crashing down," remarked a senior British Airways executive.

The menu includes a review of the existing traffic distribution rules for the south-east of England with its two over-crowded airports at Heathrow and Gatwick and its empty new airport at Stansted; proposals to introduce market mechanisms to allocate take-off and landing slots to promote competition and a multi-airline industry in Britain; and new airport terminal and runway investments to increase airport capacity in the London area while at the same time encouraging regional airport development. The renegotiation of the bilateral air service agreement between the UK and the US which regulates commercial flights between the two countries – known as Bermuda 2, and covering the biggest bilateral air market, is going ahead, and ways are being sought to relate all these moves to the European Commission's own competition policies and proposed changes to the structure of European civil aviation.

The government had been moving quietly on all these fronts. Lord Brabazon, the aviation minister, asked the Civil Aviation Authority last September to start work on drawing up recommendations on changing or removing altogether the London traffic distribution rules, which give airlines access to designated airports. He also asked for a report on introducing a new system of allocating take-off and landing times (known as slots) through market forces.

Earlier this summer, Sir Christopher Tugendhat, the CAA chairman, confirmed that a new runway in south-east England would be needed early next century. The BAA, the former British Airports Authority, is expected to open its new terminal at Stansted next spring and has plans to file a planning application for the construction of a new £1bn fifth terminal at Heathrow as well as a second terminal at Stansted.

**North Atlantic market share 1989**




Source: Aviation Week

Thomas Plaskett, chairman of Pan Am

But the government has suddenly been forced to accelerate the pace of its overall review. Pan American has precipitated a showdown over the existing rules prohibiting new international scheduled airlines from operating out of Heathrow by deciding to sell for $400m its North Atlantic rights into Heathrow to United Airlines. Because of the overwhelming importance of Heathrow, which has become the world's busiest international passenger airport, any change in the rules will have enormous implications for the entire industry.

In response to the Pan Am move, the CAA has issued a detailed consultative document on the issue and has asked about 400 organisations for their opinions. After receiving the CAA's advice, the government is expected to decide on the matter next January.

Even before the Pan Am deal, the London rules – first introduced in the late 1970s – had become out of date. By restricting new international scheduled services at Heathrow, the rules were designed to encourage greater use of Gatwick and ease the growing congestion developing at Heathrow. They were also aimed at preventing Heathrow's becoming overrun by foreign airlines at the expense of British carriers, especially the then state-owned BA.

But the situation has changed greatly during the last 10 years as a result of the largely unforeseen explosion in air travel coupled with the introduction of competition through the government's multi-airline policy, the privatisation of BA and the EC's own drive to liberalise European air transport.

**Everybody wants to fly into Heathrow and very few want to go to Stansted**

The CAA is now forecasting a 77 per cent increase in traffic at UK airports from 93m passengers in 1988 to 164.6m by the end of the century. Traffic at Heathrow has grown from 22.8m passengers in 1977 to 42.5m for the 12 months to the end of last September. At Gatwick, it has grown from 6.5m passengers in 1977 to 21.1m last year.

By the time the new Stansted terminal opens next year, available capacity at London's third airport will rise to 8m passengers a year from about 1.5m at present.

The problem, however, is that everybody wants to fly into Heathrow and very few want to go to Stansted, although the government may be tempted to use its review to induce reluctant airlines to consider operating out of the new airport. Heathrow's attractions are its huge passenger volume, of which about 35-40 per cent consists of transit traffic with passengers flying to Heathrow to pick up another international or domestic flight.

With the Pan Am deal, United is clearly hoping to circumvent the rigid no-entry rules into Heathrow. These have already pushed several of its international rivals, including American Airlines, Northwest, Delta and Continental into Gatwick.

The US appears to be backing United, arguing that United is entitled to take over the Pan Am slots at Heathrow on the ground that it is a replacement airline and not a new entrant. "United is not going to go to Gatwick," says Mr Thomas Plaskett, the Pan Am chairman, adding that failure to gain Heathrow rights "would just terminate the agreement."

But the UK government sees the situation differently. Department of Transport officials say both Bermuda 2 and the Heathrow regulations currently rule out United's presence at Heathrow. Preliminary negotiations will now begin between the UK and the US in London this week in an effort to renegotiate Bermuda 2. The US will press United's claims on Heathrow in large measure because of fears of the dire repercussions on financially vulnerable Pan Am should the United deal collapse. But the UK will want to complete first its own review, and will seek to secure rights for British carriers to operate in the domestic US market.

The negotiation promises to be difficult, all the more so because United's long-haul competitors in the US have been queueing up to operate out of Heathrow and believe they deserve precedence. American Airlines says it paid $200m for Trans World Airways Chicago to Heathrow rights this year and has been told to go to Gatwick. In the UK, Virgin Atlantic Airways has also been campaigning for access to Heathrow.

The CAA estimates there would only be four slots available at peak hours on a busy weekday at Heathrow for airlines seeking to switch international services from Gatwick. Thus even if the existing Heathrow rules were abolished, new entrants would be frustrated unless a new slot allocation system were introduced simultaneously.

Moreover, with a British general election getting closer, it is unlikely any decision will be taken soon on the politically-charged issue of new terminal and runway capacity. This is causing additional anguish in the British air transport industry. Unless action is taken quickly, the industry fears it risks losing to France and Germany, which have already committed themselves to new airport capacity development.

The risk of Britain's being left behind in Europe, combined with the US challenge for Heathrow landing rights has put the heat on the government to review British civil aviation policy. The whole issue is now in mid-air. The danger is that at the end of the day some or even all the different but inter-related ingredients of this policy will fall in Perry Oak – the swirling open sewage works at the end of Heathrow's main runway.

*LOMBARD*

# Little headroom to fight recession

**By Samuel Brittan**

About a year ago I wrote an article with a headline "No need for recession" (November 16 1989). Of course I was well aware that a recession was on the cards. What I meant was that demand for goods and services in cash terms would rise sufficiently rapidly to avoid recession. This has indeed been the case.

The best single indicator of demand is the growth of the national income in money terms – known to the statisticians as "Nominal GDP" – which appears in the first column of the table. This has been growing by 8¼ per cent per annum; and the Treasury's best guess is that it will grow by 8 per cent in 1991. This is amply sufficient to secure an increase in output in line with productive capacity.

The reason why this is not happening is all too obvious. It is indicated by the second column, which shows one version of the underlying rate of inflation known as the "GDP deflator". What it indicates is that most of the spending which might have been used to boost the output of goods and services has been syphoned off instead into higher nominal wages and prices.

This was in no sense necessary. No economy works smoothly; and it would in any case have been difficult to slow down the growth of spending to less inflationary rates without some loss of output and jobs. But that loss has been much aggravated by British bloody-mindedness. Examples are legion. Above all, there is the habit of awarding the so-called going rate of pay increase instead of looking at the specifics of particular labour markets.

Another example, which led to the resignation of the previous chancellor, was the refusal to have an exchange rate policy until the belated joining of the ERM at a wide margin a month ago. Until then there was every reason to believe that the course of sterling would be firmly downwards and that excessive pay increases would be validated, as they usually have been in the past, by the depreciation of the pound. Another bad habit has been that of looking backwards rather than forwards – whenever looking backwards can produce a pessimistic result.

In another article I said that I was more worried by some of the purported remedies for recession than the recession itself. This still applies. Recovery has two routes. One is the maintenance of nominal demand growth at an adequate rate. The other is a shakedown in costs and prices. The danger is that for lack of patience with waiting for the latter, governments will boost demand too much, thereby securing a short-term recovery at the cost of the next inflationary crisis.

Fortunately, the temptation to overexpand demand has been taken out of the hands of the British government by ERM membership. For the extent to which interest rates can be reduced or the Budget pushed into deficit is limited by the need to keep sterling within its ERM range; and it is now near the effective bottom.

The important variable that could change is that of confidence in the sterling parity. If the financial markets began to believe that ERM membership was for real, that a parity realignment was highly unlikely and that sterling's margins would soon be narrowed to a normal 2¼ per cent, then the UK's interest rate differential over Germany could narrow a lot. Indeed it would have to do so – a piece of rather obvious reasoning now dignified by the name of the "Walters critique".

Although ERM membership fortunately limits British freedom of manoeuvre, it does not entirely eliminate it. There is a modest range in which fiscal and even monetary policy can move without threatening the parity. And the Bank of England can at least express a view at the EC Central Bankers' Committee.

There are a few complications to this simple message of Nominal GDP. For this measure is only a first approximation to the inflationary or deflationary pressures in an economy. The snag is that imports are not part of GDP. In a year such as 1988, when the UK payments deficit was rising sharply, the growth in Nominal GDP badly underestimated inflationary pressures, as it did not measure that part of increased demand that was diverted into overseas purchases. On the other hand, when the deficit is shrinking, as it is now, Nominal GDP overstates demand growth.

If one adjusts for this distortion, nominal demand might now be increasing by only 6 per cent per annum. This is a sharp drop from the adjusted rate of about 17 per cent in 1988. But it is no lower than that required to secure 3 per cent inflation in the longer run. Indeed, it is very similar to the rate envisaged in the statement in the 1990 Budget of the Treasury's own Medium Term Financial Strategy.

Of course, genuine deflationary forces could develop. The 1991 figure for Nominal GDP is only a Treasury forecast. It is, moreover, not a true Nominal GDP forecast at all but a bottom-up summation of separate forecasts for output and inflation. This is a procedure which, although intellectually out of date, is one which nearly all forecasters find very difficult to avoid.

So vigilance is necessary against deflationary as well as inflationary forces. But the boy who cried "wolf" was disbelieved because he had raised the alarm too frequently.

**KEY UK INDICATORS (% changes)**

| | Nominal GDP | GDP deflator | Change in current balance |
|---|---|---|---|
| 1986 | 7.6 | 3.5 | -2.7 |
| 1987 | 9.9 | 5.0 | -4.1 |
| 1988 | 11.6 | 6.7 | -11.0 |
| 1989* | 8½ | 6½ | -4 |
| 1990* | 8½ | 8 | +3½ |
| 1991‡ | 8 | 6 | +4½ |

* Corrected for Poll Tax distortions; ‡ Treasury forecast. Source CSO, Treasury

# *LETTERS*

## The European Central Bank's supervisory role

*From Mr R.P. Kinsella.*

Sir, David Lascelles's article ("Flaw in the Argument," November 7) on the governor of the Bank of England's speech, in which he suggested that a future European Central Bank would have supervisory responsibilities, raises important issues which have not as yet been addressed in the debate on European monetary union (Emu).

There are good reasons, beyond those advanced in the report of the speech, why such a development is both inevitable and desirable.

The European Commission, in a communication to the Council of Economic and Finance Ministers (Ecofin) earlier this year, stated that "since the ECBS [central bank] has an interest in prudential supervision being properly implemented and co-ordinated, it should have a role in this area".

However, the proposed institutional arrangements for a European Central Bank envisage only a minor role for the bank in this area. This is likely to change when the forthcoming inter-governmental conference begins to assess the supervisory implications of the completion of the internal market in financial services and, more specifically, of full monetary integration in the European Community.

In particular, the growing integration of financial markets in Europe, the trend towards trans-frontier financial conglomerates, as well as increasing market concentration, mean that a centralised Community-wide capability to contain a systemic crisis will be increasingly necessary.

Moreover, reliance on co-ordination among different central banks to contain an incipient crisis would leave European financial markets highly vulnerable. It will become progressively more difficult for smaller countries, in particular, to provide adequate lender-of-last-resort facilities for large domestic-based institutions with significant international exposures. A centralised EC supervisory authority has advantages in this context.

Consider the increasing complexity and potential fragility of what has been called the "plumbing" underlying the European financial markets. The increased interdependence of information, payments, clearing and settlement systems require a supervisory capability which must extend beyond that of any individual Community country, even the largest.

This implies a greater role for a European Central Bank in this area. It is one which should, therefore, be reflected in its institutional structure.

This is not to say that national central banks will not have local responsibilities in this key area of supervision. But as the decade progresses, it will be increasingly obvious that there is a compelling need to strengthen and develop the European dimension.

R.P. Kinsella,
*Faculty of Business and Management,*
*University of Ulster,*
*Coleraine, Co Londonderry*

## City's regulators must be told of rule-book problems

*From Mr Charles Abrams.*

Sir, There are important observations to be made on the article by Peter Martin on the new City rule books ("Tell Sib, writing a rule book is tough," October 31). It is very easy to write a short rule book. All you have to say is: "You must not do anything." It is when you want to allow firms to do what is otherwise prohibited, but only in certain circumstances and in ways which do not prejudice investors, that things get more complicated.

It is, of course, impossible to provide in a rule book that the prohibitions in it apply only to "the bad guys" and that "the good guys" can ignore them. As a result, the only feasible approach is to provide the required prohibition in suitable, restricted terms and then to provide exemptions in the relevant cases.

A rule book which is long because it provides exemptions where appropriate is far preferable to a rule book which is short because it does not.

The UK regulators do show a very welcome appreciation of the need for exemptions and a desire not to hinder the business of practitioners unduly. However, they cannot know the difficulties that arise in practice unless they are told. It is therefore important for City firms who feel they are unfairly prejudiced by a particular rule or proposed rule to make representations.

The self-regulating organisations (SROs) and indeed the Securities and Investment Board (SIB) bring in new rules only after a consultation period. Firms should use the opportunity to review the impact on their business of the proposed rules and should bring any anticipated problems to the attention of their regulators during the consultation period.

One of the main reasons why customer agreements are so long is because of the detailed provisions they contain creating or protecting the rights of the firm against its client. Certainly the SROs do impose detailed disclosure requirements and there may be room to argue with one or more of them. However, they do not actually lengthen the agreement unduly, except in the important case of risk warnings. The regulators do not object to firms protecting themselves but, if the latter do put in detailed provisions for their own benefit, it cannot be blamed on the regulators.

The main reason rule books are legalistic is because parliament has given investors the right (in the famous section 62) to go to court if they suffer loss as a result of the contravention of a rule. This is a very important protection but it means that the rule has to be one which will stand up in a court of law. There is certainly room for criticism in many cases but the protection of the rights granted by parliament to investors depends on the rules being in a form in which they are enforceable.

The rules increasingly differentiate between private investors and professional or business investors, imposing far fewer rules in the latter cases. They have not yet reached the stage that one section of the rule book deals with business investors and one deals with private investors, but that may come. Certainly great strides are being made in that direction.

Charles Abrams,
*partner,*
*S J Berwin & Co,*
*236 Grays Inn Road, WC1*

## Euro-dreams and abstractions

*From Mr J.C. Stott.*

Sir, The ability of the Euro-fanatics to pile abstraction on abstraction, dream on dream, vision on vision, has never been in doubt.

Robert Mauthner's article ("Navigation without a compass," November 6) is a classic example. We are to seek a grand design, but lack the necessary compass.

Waffle of this order is the more bizarre, coming as it does after a fortnight which has seen the European Community at its abject worst:

● Certain members of the Community have each played their own little game in the Gulf crisis.

● The French and German antics over the common agricultural policy and the Uruguay Round were deservedly excoriated by you.

● The Italian manoeuvres at the quite unnecessary Rome summit were both shabby and childish.

Mrs Thatcher, it is said, has no vision of Europe. Not so. She has twenty-twenty vision and a sharp nose for cant to boot.

J.C. Stott,
*3 Kennedy Gardens,*
*Sevenoaks, Kent*

## No threat to secularism

*From Mr K.K. Mistry.*

Sir, Your editorial comment ("India on the brink of chaos," November 8) is most unfair to the BJP. This would stem from an ignorance of its ideology and character. You dub the BJP a Hindu fundamentalist party, ignorant of the fact that there are no fundamental rules, texts, beliefs, etcetera in Hinduism.

The BJP poses no threat to secularism or democracy. It stands for equality and justice for all, irrespective of creed or religion. It rejects, however, the pseudo-secularism practised in India today, whereby minorities are granted special privileges and which discriminates against the majority. The BJP is truly secular and its image of being a threat to minorities is a myth created by politicians and the media to discredit its genuineness.

K.K. Mistry,
*197 Roxeth Green Avenue,*
*Middlesex*

FINANCIAL TIMES
Monday November 12 1990



PUBLIC SPENDING CUTS

# Germany plans savings of DM30bn

**By David Marsh in Bonn**

THE German government is planning public spending cuts of about DM30bn ($19.8bn) next year, including the elimination of certain tax allowances, in an attempt to keep the soaring budget deficit under control.

The cuts will be presented to the cabinet on Wednesday by Mr Theo Waigel, finance minister. The Finance Ministry said yesterday that the measures represented a "signal to the financial markets" that the government was serious about making budgetary savings to help finance the rising cost of German unity.

Since currency union between east and west Germany in July, the Finance Ministry's estimates for all-German borrowing in 1990 and 1991 has risen sharply by about DM40bn for each year.

The Bundesbank has been putting pressure on the government to reduce spending, saying that otherwise it will face the risk of interest rate increases.

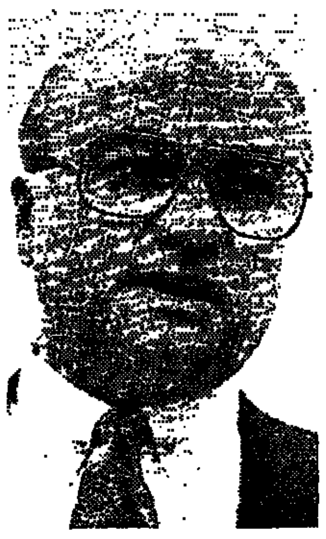
Despite the spending cuts, next year's overall public sector borrowing requirement will still be in the region of DM140bn to DM150bn, as indicated by the Bundesbank last week, the ministry said.

Mr Waigel is still claiming that the task of merging east and west Germany can be carried out without increasing taxes. However, the plans to reduce certain types of employees' tax allowances are certain to be seized on by the Social Democratic Party opposition that the government is after all bringing in higher taxes.

According to latest figures from the finance ministry, this year's overall public sector deficit, not including the social security fund – which is in surplus – will be DM129bn. This is much higher than stated even a few weeks ago.

The net borrowing requirement for 1990 is made up of DM66.8bn for the central government, DM20bn for the states (Länder), DM3bn for municipalities, DM20bn for the German Unity Fund, DM7bn for cash for east Germany under the so-called ERP Fund, and DM12bn for the Treuhand privatisation agency.

Mr Waigel has been very reluctant to give details of planned spending cuts for 1991 in view of the approaching general elections on December 2. However, the plan to be unveiled on Wednesday will include reductions in defence spending and regional support, as well as switches of expenditure in other budgetary areas such as infrastructure.



Clayton Yeutter: warned EC of high political price

# Yeutter gets tough with Europe over farm reform

**By Nancy Dunne in Washington**

MR CLAYTON YEUTTER, the US agriculture secretary, will visit European capitals this week and warn of the "high political price to be paid by the Community" if the Uruguay round of talks fails because of EC intransigence over farm trade reform.

Taking a hard line before his departure today, Mr Yeutter said EC ministers worried about the price to be paid politically for farm trade liberalisation. Instead, he said, there would be an even higher price to be paid "if the other nations of the world protect their own interests in a more confrontational trading environment."

Mr Yeutter will try to push the negotiations along. He travels to London tomorrow, Bonn on Wednesday, Paris on Thursday and Brussels on Friday for the annual US-EC ministerial meeting. He will be in The Hague on Saturday and in Stockholm on Sunday for a meeting with officials of the European Free Trade Association (Efta).

He said he was hoping for flexibility in the EC plan to cut internal farm supports by 30 per cent. "If all the reform that is achievable is the amount that is encompassed in the EC proposal, then it simply isn't worth it. I'd rather simply forget the whole thing and go about protecting our interests in our own way."

US officials have refrained from publicly spelling out how they would redesign farm policy if the Uruguay round fails, although some have suggested the US would have to turn to a plan similar to the EC's Common Agriculture Policy. Congress, in its new budget compromise, voted new farm supports and export subsidies worth at least $3bn if the US does not enter into a multilateral trade agreement by June 30, 1992.

The budget agreement also seeks to derail a movement in the Senate to withdraw the "fast-track" negotiating authority which would prevent amendments of legislation implementing the Gatt (General Agreement on Tariffs and Trade). The increased farm supports would not be mandatory if an international agreement fails because the fast-track is withdrawn.

Mr Yeutter denied reports that he would support extending the negotiations through January, beyond the round's scheduled ending on December 5. "I simply wanted to emphasize the grave time strains that exist now because of the procrastination of the European Community in placing its agriculture proposal on the table about three weeks late."

On the plus side, he said that the debate in Europe over farm trade reform had finally been "focused correctly."

"Tariffication is being seriously considered and debated . . . no commitments have been made on export subsidies but a lot of discussion has been held on the possibility . . . for the first time ever in the EC. And the magnitudes of potential change and internal supports go beyond anything that has been contemplated in past years as well.

"The problem is that that all should have taken place about two years ago instead of today . . . but better late than never."

● Mr Frans Andriessen, European Community vice-president, said that farm subsidies had been over-emphasised in world trade talks and his 12-nation group wanted a balanced package to emerge next month, Reuter reports from Tokyo.

# Gulf allies plan for worst scenario

## Commanders expect poison gas bombardment, writes Michael Field

BRITAIN'S army officers in the Gulf have no illusions about the enemy. One officer, serving with the British 7th Armoured Brigade in eastern Saudi Arabia, expects his squadron of tanks to meet Iraq's elite Republican Guards.

"They'll be as good as the Russians – who are very good," he says. "But don't worry, we're still better than they are. We'll win."

His comments are typical of the middle rank officers – the majors, colonels, wing commanders – of the multinational force now massed in Saudi Arabia and the Gulf states. These are the people who may have to lead their units in battle. They are planning for the worst scenario but are confident that they would be able to deal with it.

If fighting breaks out, the commanders of the multinational force expect first to gain air superiority and then use their air power to destroy as much as possible of the Iraqi forces on the ground.

The allies have been listening to the Iraqi air force and have been impressed by how little information it gives away when its aircraft are in the air. But they have also noticed that the Iraqis have not been training as much as they should be if they are "going to be effective on the day."

Some of the 600 or so Iraqi combat aircraft are the most modern Russian types. But like most Soviet equipment, the aircraft need heavy maintenance and it is believed that any of the foreigners, particularly Pakistanis, who used to do this have either left the country or are not working. For internal security reasons, it is thought that some of the older Iraqi squadrons are not armed.

Officers have studied the performance of the Iraqi air force in the Gulf War, when it gave virtually no support to ground forces – it is assumed it was afraid of taking casualties from ground-to-air missiles – and after the first few weeks did not engage the Iranians in the air.

In four years of attacks on undefended tankers and on the loading terminal at Kharg Island, the Iraqis were never able to stop Iranian oil exports for more than a week. In most months the Iranians met, or exceeded, their full production quota for the Organisation of Petroleum Exporting Countries (Opec).

The possibility of the Iraqis damaging Saudi oil installations sufficiently to reduce production (and cause a rise in prices) is dismissed by the allies, who doubt Baghdad's ability to launch an effective attack deep into Saudi Arabia.

One air force officer thinks "we'll win the air war in 48 hours. It might even be eight."

He adds: "In fact it is quite likely that the Iraqis will not come out and fight."

The allied ground forces are less confident. They face Iraqi defensive earthworks – a series of high sand ramparts which extend several miles. The ramparts are an effective anti-tank obstacle because the vehicles expose their lightly armoured undersides for a few moments at the peak of the ridge.

The ramparts are separated by ditches, tank traps, wire and mines – thought to include chemical mines, which may mean that the die is already cast for the use of poison gas. It is thought that the Iraqis have harnessed the production system of the giant Burgan oil field to flood the trenches with crude oil which could be set ablaze.

The allied commanders hope that the Iraqi defences would be partly destroyed by bombing, but they are also looking to their engineers to think of ways of overcoming them.

"This would be very much an engineers' battle," according to a battalion commander.

"It is rather like a game of chess: for each Iraqi defensive ploy our people have to think of a counter measure."

One of the gadgets already deployed for the last stages of minefield clearance is a weapon called "Viper" – a long flexible tube filled with explosive which is fired on to a minefield and detonated.

Any assault against the Iraqi defences is expected to meet heavy artillery fire – unless the Iraqi batteries have been largely destroyed by bombing. Field commanders are working on the assumption that there will be concentrated shelling with poison gas.

Mustard gas is regarded as a more likely weapon than nerve gases because it evaporates slowly. It lingers on the ground longer and is therefore more effective in denying territory to an enemy and delaying an attack.

Gas is less lethal than ordinary high explosives – especially if troops are wearing very efficient modern protective clothing – but it has a terror effect which would certainly alarm civilians in Europe and America.

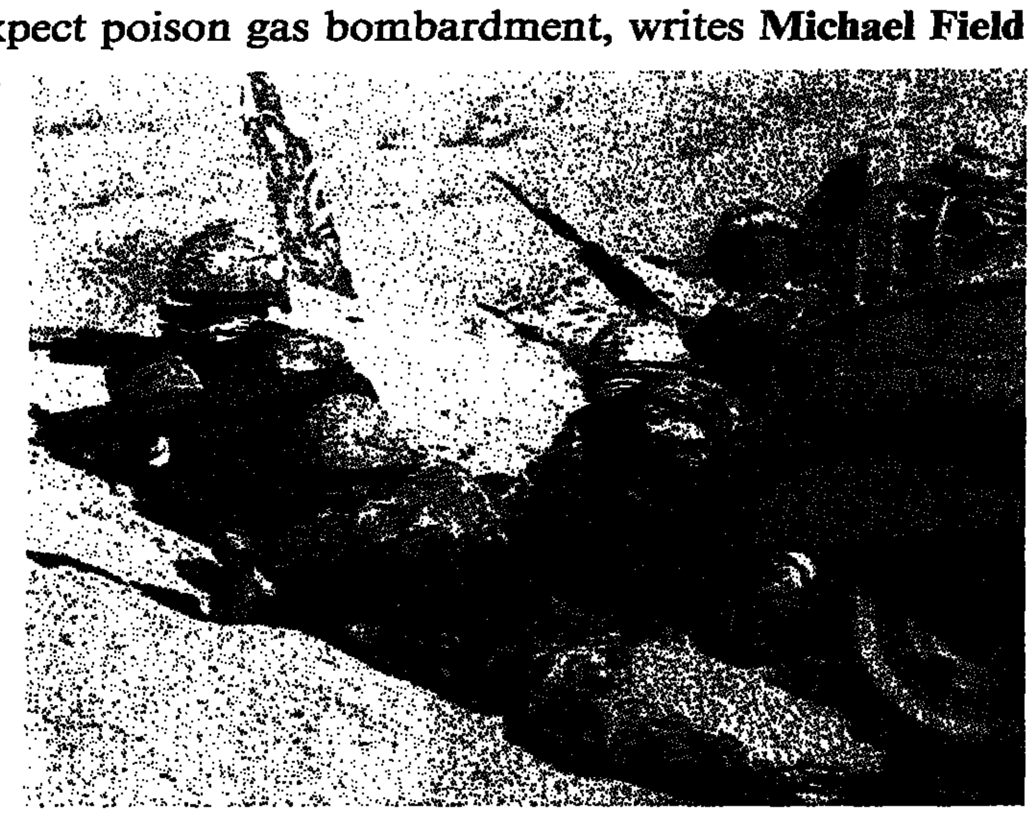
The final breakout stage should be much easier for the multinational force. The Iraqis, despite their large fleet of tank transporters and ability to move armour rapidly to different parts of the front, have no experience of mobile warfare.

It is air superiority, training for fighting a mobile war and the ability to fight at night that are regarded as the major advantages of the US, British and French forces. The Soviet battle tactics employed by the Iraqis is also seen as a bonus by European and US troops trained specifically to counter tactics developed by the Warsaw Pact.

There is, however, an unknown factor in the event of war: the number of casualties that might be sustained. Commentators in Europe and America have tended to pick whatever figures suit their position for or against a military solution to the crisis. In the heat of the desert, meanwhile, one air force officer says: "We've made the same assumptions that we would for a war in Europe, but I'll be frank – I don't expect there would be that many."

The threat of casualties would not be a problem, according to another officer, because the western forces are professionals for whom injury is a potential occupational hazard.

"It's the will of the people at home that would worry me," he says. "If we are going to have the politicians and the public lose their nerve if fighting starts, I'd prefer to go home now."



British troops stage a simulated attack. In a real one they would face formidable Iraqi defences

# Thatcher challenge

Continued from Page 1

test.

Mrs Thatcher has an opportunity to reunite her party at the Lord Mayor's banquet in London tonight.

Her speech is expected to stick carefully to prepared comments on Europe, emphasising Britain's commitment to working constructively with EC partners.

Whitehall officials are adament that Mrs Thatcher was not in a mood to give in.

Anyone challenging her for the leadership "would have a fight on their hands," one said.

In the House of Commons tomorrow or Wednesday, Sir Geoffrey Howe, former deputy prime minister, will make his first speech since resigning. He is likely to be severely critical of the style and substance of the prime minister's stand on Europe.

Sir Geoffrey's colleagues continue to insist that he has no intention of standing for the leadership but acknowledge that he has been lobbied from within the party to reconsider.

For Mr Heseltine, his decision will depend on how near he believes he is to winning the support of the 159 Conservative MPs required to force the prime minister to resign. A "stalking horse" challenger intended to pave the way for a full-blown contest has not be ruled out, however.

Mr Peter Temple-Morris, Conservative MP for Leominster in the English midlands, said on BBC television that Mr Heseltine would be an "outstanding" prime minister. He said: "I believe we have got to go for it, that there are tides that one has to catch. . . in history and in politics."

But Mr Julian Critchley, MP for Aldershot in Southern England and friend of the former defence secretary, played down the probabilily of a contest. "I still don't think he will run. I mean, I'm his biographer but I'm not in his private office."

# US may delay UN move

Continued from Page 1

sending more than 150,000 extra troops to the Gulf and warned that he risked overstretching supply lines.

"The president has a real obligation to explain why liberating Kuwait is in our vital interest, an interest so important that we're willing to expend thousands of American lives if necessary."

President Bush, who has been briefed on the Baker mission, is expected to step up his pace in the next few weeks, starting with his forthcoming visit to Europe and Saudi Arabia, where he will spending Thanksgiving with the troops.

The US viewed a UN resolution on the use of force as a useful political tool to garner congressional support by providing "international cover" in the event of war. It could also serve to prevent Arab defections, according to US officials.

This remains the view, but the differing views within the international coalition mirror an ambivalence within the administration.

The Pentagon is especially concerned that an inadequately worded UN resolution could shackle the US military.

A US official summed up the dilemma: "We want the world on our side, but the question is: How high a price are we prepared to pay for it?"

Meeting Mr Baker in London, Mrs Margaret Thatcher, the UK prime minister, was lukewarm about efforts to seek another UN resolution, saying that the legal authority already existed for the use of force.

In Moscow, the Soviet leadership acknowledged that force could not be ruled out, but Mr Baker apparently failed to move the Soviets beyond their general statement that the use of force should be authorised by the UN. In Paris, US officials reacted with disappointment to Mr Roland Dumas, foreign minister, who said: "Nobody has yet started discussing military action."

## WORLDWIDE WEATHER

| | | °C | °F |
|---|---|---|---|
| Ajaccio | S | 19 | 66 |
| Algiers | S | 21 | 70 |
| Amsterdam | C | 12 | 64 |
| Athens | C | 14 | 57 |
| Bahrain | S | 30 | 86 |
| Bangkok | F | 28 | 82 |
| Barcelona | S | 18 | 64 |
| Beirut | – | – | – |
| Belfast | C | 11 | 52 |
| Belgrade | Fg | 0 | 32 |
| Berlin | C | 7 | 45 |
| Biarritz | S | 17 | 63 |
| Bombay | S | 31 | 88 |
| Bordeaux | F | 15 | 59 |
| Boulogne | C | 14 | 57 |
| Brussels | F | 13 | 55 |
| Budapest | Fg | 0 | 32 |
| Buenos Aires | F | 27 | 80 |
| Cairo | F | 21 | 70 |
| Cape Town | C | 18 | 64 |
| Caracas | C | 30 | 86 |
| Casablanca | S | 20 | 68 |
| Chicago | S | -3 | 27 |
| Cologne | C | 10 | 50 |
| Copenhagen | C | 5 | 41 |
| Corfu | S | 15 | 59 |
| Dallas | S | 7 | 45 |
| Dublin | R | 11 | 52 |
| Dubrovnik | C | 13 | 55 |
| Edinburgh | C | 9 | 48 |
| Faro | S | 20 | 68 |
| Florence | C | 9 | 48 |
| Frankfurt | R | 9 | 48 |
| Geneva | C | 10 | 50 |
| Gibraltar | S | 19 | 66 |
| Glasgow | C | 9 | 48 |
| Helsinki | S | 1 | 34 |
| Hong Kong | – | – | – |
| Innsbruck | C | 7 | 45 |
| Inverness | S | 6 | 43 |
| Islamabad | F | 24 | 75 |
| Istanbul | R | 8 | 46 |
| Jakarta | C | 33 | 91 |
| Jersey | C | 13 | 55 |
| Johannesburg | S | 30 | 86 |
| Lima | C | 19 | 66 |
| Lisbon | Fg | 11 | 52 |
| London | C | 12 | 54 |
| Los Angeles | S | 17 | 63 |
| Luxembourg | C | 9 | 48 |
| Madeira | F | 21 | 70 |
| Madrid | S | 14 | 57 |
| Majorca | F | 18 | 64 |
| Malaga | S | 20 | 68 |
| Malta | R | 19 | 66 |
| Manchester | C | 11 | 52 |
| Manila | R | 32 | 90 |
| Melbourne | C | 16 | 61 |
| Mexico City | F | 21 | 72 |
| Miami | S | 13 | 55 |
| Milan | C | 4 | 39 |
| Montreal | C | 1 | 34 |
| Moscow | R | 3 | 37 |
| Munich | C | 10 | 50 |
| Nairobi | F | 25 | 77 |
| Naples | S | 16 | 61 |
| Nassau | C | 31 | 87 |
| New Delhi | – | – | – |
| New York | S | 7 | 45 |
| Nice | F | 16 | 61 |
| Nicosia | S | 18 | 64 |
| Oporto | S | 17 | 63 |
| Oslo | F | 0 | 32 |
| Paris | C | 11 | 52 |
| Peking | S | 15 | 59 |
| Prague | C | 4 | 39 |
| Reykjavik | C | 6 | 43 |
| Rhodes | S | 16 | 61 |
| Rio de Janeiro | F | 38 | 100 |
| Rome | S | 15 | 59 |
| Salzburg | F | 8 | 46 |
| San Francisco | C | 11 | 52 |
| Seoul | C | 10 | 50 |
| Singapore | F | 33 | 91 |
| Stockholm | C | 2 | 36 |
| Strasbourg | R | 9 | 48 |
| Sydney | S | 17 | 63 |
| Taipei | C | 24 | 75 |
| Tangier | S | 20 | 68 |
| Tel Aviv | C | 19 | 66 |
| Tenerife | F | 24 | 75 |
| Tokyo | S | 16 | 61 |
| Toronto | Sn | 0 | 32 |
| Tunis | C | 20 | 68 |
| Valencia | S | 18 | 64 |
| Venice | F | 8 | 46 |
| Vienna | R | 0 | 32 |
| Warsaw | C | 5 | 41 |
| Washington | S | 7 | 45 |
| Zurich | R | 8 | 46 |

Temperatures at midday yesterday C–Cloudy Dr–Drizzle F–Fair Fg–Fog H–Hail R–Rain S–Sunny Sl–Sleet Sn–Snow T–Thunder

THE LEX COLUMN

# The square mile changes shape

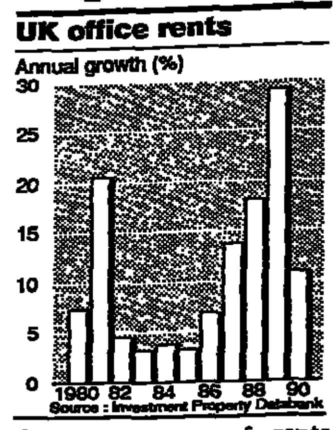
There cannot have been a time since the mid-1960s when the future of the City of London office market has been as hard to predict as today. Everyone knows the arithmetic of oversupply – this autumn an estimated 9m square feet were available for immediate occupation, meaning a 14 per cent vacancy rate. As for rents, the days of record lettings at £70 per square foot in London EC3 are over. The chances of City rents generally seeing much more than pedestrian growth in the early to mid 1990s seem slim, given existing planning consents for a further 50m sq ft. And yet none of the above answers some of the more fundamental questions nagging at commercial property minds.

Is the current slump just another down-cycle, albeit one aggravated by the recession, and the credit squeeze? Or has the City market changed permanently, in the tenant's favour, thanks to freer planning and the creation of new centres like Docklands? Even leaving aside Canary Wharf, the former view is becoming harder to sustain. The chief evidence for it is that so-called trophy buildings still sell on premium yields to cash-rich foreigners. But there are only a few hundred trophy buildings in the UK, let alone London; and a lot of them are owned by Land Securities, or the biggest institutional investors. Trophy valuations are no indication of the market generally.

The evidence is accumulating for the latter view, that the City has changed fundamentally. This is not so much because of all the surveyors' gossip about slow lettings of properties like MEPC's Alban Gate, over London Wall. Generalising from individual properties is dangerous, especially in a bear market. More important are accumulating items of circumstantial evidence.

One is Rosehaugh Stanhope Developments' Broadgate. It is still too early to say how much sense Broadgate made for the developers, in spite of last week's healthy results from Stanhope. RSD has nearly £1bn of debt, Broadgate will be cash-negative this year by a net £40m, and the pending sale of Phase 4 is the first big test of what outsiders think it is worth. But it has made sense for British Rail, and the tenants, especially at RSD's top rent of £47.50 per sq ft. Hence the gradual, British Rail-driven process of rolling back the frontiers of the City, to include areas like Ludgate and King's Cross, will almost certainly continue in the 1990s.

A second piece of evidence is the convergence of rents between the City and outer London. At about £30, top rents in Uxbridge and Hammersmith are now better than most in Docklands, and close to those in the City fringe. A third is that the big four clearing banks – the City's largest space-occupiers – are at last having to rationalise their properties. None of this supports the radical view, voiced by Salomon Brothers this August, that London's traditional office centres will lose all their prestige. But it does suggest that for the City this is more than just another downcycle.




## Eurotracking

The FT-SE Eurotrack 100 has just ended its second week as a live index; it is too soon, obviously, to draw conclusions about its reception from portfolio managers, but not too early to judge its merits as a daily guide to market sentiment. It was decidedly helpful, for example, to get a one-stop view of the local market reaction of leading German stocks to the recent unexpected rise in the Lombard interest rate – BMW, Volkswagen and Deutsche Bank all fell by between 2 and 3 per cent, while Commerzbank dropped more than 4 per cent.

Over last week, the Eurotrack index gave a pretty clear picture of Europe's (excluding the UK's) dismal performance; it has now dropped by almost 5 per cent since its re-basing before launch at 1,000. However, experienced investors could easily have called up the DAX and CAC indices and seen roughly the same picture.

Nor is it too early to review scepticism voiced at the time of the index's creation over the possible launch of derivatives products based on the index. As more evidence emerges that the market for index warrants in general is suffering from chronic illiquidity – witness the assurances felt necessary by Barclays de Zoete Wedd about making a secondary market when it launched a block of FT-SE warrants last week – it seems far from obvious that securities houses will put their capital on the line with new issues on an untested product which is certainly not yet a benchmark.

Some of the stocks in the Eurotrack index are turning out to be harder to deal in with reliable settlement than was assumed at the outset – those in Belgium, for example. That makes hedging any derivatives an expensive and risky proposition. There may be some hidden over-the-counter activity, but for now it will probably be limited. There is one thing working in the favour of the derivatives experts, however. Because the index constituents make a complex basket for valuation purposes, calculating fair value on, say, an option is an almost impossible task. From that point of view, there is plenty of room for some creative mathematics and fat charges to any customers.

## US dollar

There seems to be no let-up in the steady decline in the US dollar. Its 14 per cent fall over the last year has been nowhere near as savage as the sharp drop between 1985 and 1987, nevertheless there are beginning to be whispers that something ought to be done before it causes serious damage. The French, not surprisingly, are leading the charge to reverse this latest outbreak of benign neglect of the dollar. Given their new-found anti-inflationary zeal they can hardly break their links with a strong D-mark, yet the weakness of the dollar is compounding the problems of the current economic slowdown in France, and a growing number of other EC countries.

There is no sign yet that Germany or Japan are concerned. In fact, quite the reverse. The weakness of the dollar is cushioning them from the full impact of the recent near doubling in oil prices. Both are still more worried about inflation than recession. Meanwhile the US authorities are desperately anxious to avoid a deep recession, and letting the dollar fall is about their only feasible policy option. Nevertheless, the noises coming out of Paris should not be ignored, since they underline the fact that strains within the ERM are bound to increase as EC growth rates increasingly diverge.

FINANCIAL TIMES
COMPANIES & MARKETS



 Monday November 12 1990

## INSIDE

### It's a premium call from Nortel

Northern Telecom of Canada is borrowing £1.5bn from international banks to fund the acquisition of STC, the UK telecommunications equipment manufacturer, announced last week. But the international banking market is awash in sterling loans, and the borrower is having to pay a premium to secure the funds, Deborah Hargreaves writes. Page 22

### Cement for celluloid

Italian financier Giancarlo Parretti is set to sell Renta Inmobiliaria, the Spanish construction company, to French investors for about Pta35bn ($373m). Parretti's Pathé Communications has just completed a $1.36bn acquisition of Hollywood studio MGM/UA Communications and the proceeds of a Renta deal may be used to help finance this purchase. Page 19

### Rights hopes for Eurotunnel

Trading starts today in packages of rights to subscribe for new shares in Eurotunnel. The stock should open at about 222p. But Eurotunnel hopes demand for the nil-paid rights from new investors in the Channel tunnel project, or existing shareholders who want to increase their travel perks, will push up the price of nil-paid packages, writes Andrew Hill. Page 18

### Fighting shy of corporate bonds

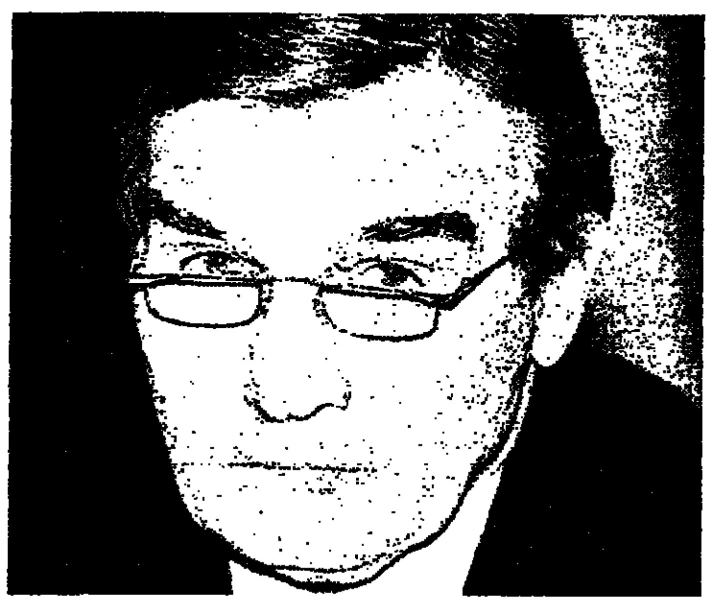
Corporate bonds have been suffering a buffeting in the international markets. One reason is that capital-starved banks are shying away from corporate bonds, against which they are forced to hold a lot of capital. According to syndicate managers, some Japanese banks are said to be considering wholesale disposal of corporate debt securities. Some have started selling corporate bonds and are switching into more capital-efficient sovereign paper. Simon London reports. Page 22

### Market Statistics



### Companies in this section





George Walker: management's case swayed banks' judgment

# Banks heed Brent Walker plea

By David Waller in London

BANKERS TO Brent Walker have agreed to provide £30m ($59m) in cash to stave off short-term liquidity problems at the troubled leisure company. They have also agreed to re-arrange the terms of the group's £1.2bn of debt so that it can proceed with its plans to raise £103.3m via a convertible bond issue later this week.

The agreement came after the bankers heard an "impassioned plea" for the future of the company from Brent walker's management. "This certainly swayed our judgment," said one person who attended a Saturday morning meeting of 150 bankers.

Those present heard an assessment of the company's financial position prepared by Touche Ross, the accountancy firm. According to one banker, short-term cash flow looked "pretty precarious" and the group sought a further £30m in short-term funds in addition to an extra £40m already pledged by the banks.

It is likely that the £30m will come from the steering committee of lead creditors to Brent Walker, headed by Standard Chartered, although details will only be finalised after the vote by shareholders on Thursday to approve the bond issue.

At the meeting, bankers agreed in principle that Brent Walker will not have to repay any capital until the end of 1992, by which time it is hoped that the economic climate will have improved and the group will be able to fetch higher prices for asset sales than is possible at present. The banks' formal signatures of approval are required by Tuesday, which may be difficult administratively.

"There was a pretty general feeling that the appointment of an administrator would have been a disaster. The company's assets are not in doubt, but they would be worth a lot less if there was a fire sale. The Touche Ross report showed the group does have a short-term cash-flow problem, but this is not sufficiently serious to stop the bond issue. With careful management, the company will be viable."

The agreement was reached only after disputes between the banks themselves after Brent Walker last week transferred £38m from its William Hill betting subsidiary to the parent company, upsetting banks which do not have an exposure to the parent. It is thought that £20m had gone back to the subsidiary by Friday.

Bankers expressed concern about the level of financial management within the group and have won agreement that a new finance director be installed to replace Mr Wilfred Aquilina.

Brent Walker, which operates pubs, marinas, and hotels, is headed by Mr George Walker. It has grown rapidly since it was re-floated on the stock-market in 1985, but much of the expansion has been financed by bank borrowings. The £103.3m bond issue, which will be applied to reduce the company's debts, cannot go ahead without bank approval.

# Hard times reach the rooms at the top

**Martin Dickson, Alan Friedman** and **Nikki Tait** examine the latest sackings on Wall Street

A delicate new social skill is facing the inhabitants of plush apartment buildings in upper Manhattan and the wealthy, manicured suburbs to the north east of New York City: how to respond correctly to the news that your prosperous middle-class neighbour is suddenly out of a job.

For a new wave of redundancies is sweeping through Wall Street and this time it is hitting those with most to lose: the highly-paid investment bankers who profited mightily from the wild takeover boom of the 1980s. Furthermore, the cuts are coming across the board, for the first time hitting a substantial number of senior officers as well as line soldiers. And those still left with a desk are likely to face cuts in their pay.

Some analysts argue that Wall Street as a whole, which is thought to have lost some 40,000 jobs since the 1987 stock market crash, could lose as many as 40,000 more, from a total of some 230,000, over the next two to three years.

The past week alone has brought news that Prudential-Bache, known primarily as a retail brokerage, is cutting about 120 of its 180 investment banking jobs. Merrill Lynch cut some 50 of its nearly 600 bankers and rumours of a big new purge at First Boston have swept Wall Street. The bank declines to talk numbers, saying the cuts are "ongoing" but – having axed almost 50 jobs from the equity division last week – there seems little doubt that further layoffs will flow before Christmas.

Some impetus may have been given to this series of cuts by an announcement at the start of November that even mighty Morgan Stanley, one of the highest regarded houses on Wall Street, was trimming its investment banking team by 6 per cent, or about 50 people. Where Morgan led, others could safely follow.

Wall Street has been scaling down ever since the 1987 crash scared off individual investors, but the previous purges had the greatest impact on the trading and retail brokerage side of the securities houses.

The investment bankers, the elite of Wall Street, were far less affected. This was because their particular businesses – which include underwriting issues of securities for corporate clients, raising debt, advising on takeovers and investing in buy-outs – continued to prosper into 1989 or even the first half of this year.

Now, however, nemesis has arrived, in the form of a looming domestic recession, immense market uncertainty because of the Middle East crisis, and a sharp deterioration in the balance sheets of commercial banks, severely curtailing their appetite for corporate lending.

"This industry is in trouble and we need to take some very drastic steps," said the chief executive of one of Wall Street's biggest investment banking and brokerage combines. Putting the bear case, he adds: "Clearly there are going to be no equity deals, no debt financing and no M & A deals for many months."

"The only place to look for business," he reckoned, "will be from bankruptcy reorganisations. Some people say that the worst of the recession will be over by mid-1991. I don't believe that and we are taking the approach that there will be little business of substance for the next 18 months, starting in January. There is just no business in the pipeline."

The deterioration in investment banking has snowballed over the past year, first with problems of securing bank finance, then with the collapse at the start of the year of Drexel Burnham Lambert, bringing an end to the junk bond era.

In the first nine months of this year Wall Street's underwriting fees plunged around 31 per cent to $1.5bn. In the first 10 months the value of domestic takeovers fell 50 per cent to $186bn. Many investment banks are now staring at very uneconomic overheads which they have to slash, and most of those overheads are people.

However, the current round of cuts will not be spread evenly. The more exposed are big, institutions with large overheads, often with their roots in retail brokerage, some of which have overexpanded in investment banking from a small base. To a greater or lesser degree these include First Boston, Kidder Peabody, Merrill Lynch, PaineWebber, Prudential-Bache and Shearson Lehman.

Those which look less likely to require major surgery are institutions which either have long had a better blue-chip client base or were more conservative in the roaring 1980s. These include Dillon Read, Goldman Sachs, Lazard Frères, Morgan Stanley and Salomon Brothers.

At first glance, the paucity of business might seem to put heavy pressure on boutiques, yet their mood is more upbeat. Overheads are generally lower and individuals – who have already made their reputations with mainstream investment banks - have sufficient personal wealth and experience of previous slumps to sit out this one.

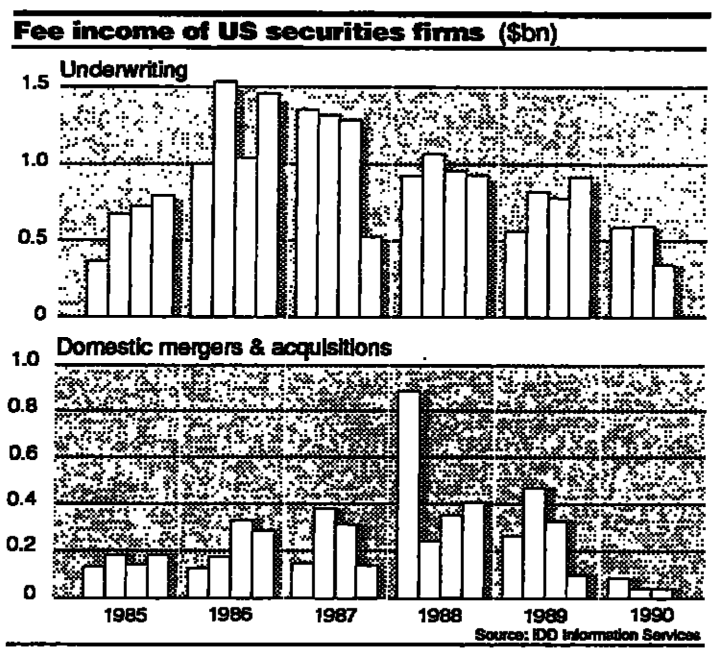
Furthermore, a slump in bid fees can be partly cushioned by earnings from managing in-house investment pools. "Every ten years we go through slumps," says Jo Rice, president of Clayton & Dubilier. "The big difference was in the 1980s when the pools of capital came up. There is a stability in these organisations now."

That said, many investment bankers question the overheads of Wasserstein Perella, the mergers and acquisitions operation which only began life in February 1988 but employs 120 professionals in London, New York, Tokyo and Paris. "They've been mashed – they've got a huge number of people and no deals," says one competitor. "I don't see how they can be making any money." However, Mr Bruce Wasserstein, rebuts such sniping by saying "this is more a reflection on our critics' problems than on our position."

He says his firm is making profits and is ranked among the top three or four firms for its deals in 1990 (the firm in fact was ranked first, third and 12th in the three quarters of 1990). He is unworried about overheads because "the key difference is that we don't have 5,000 people and our business is relatively small and focused, with an international side that accounts for 40 per cent of our M & A income."

Whatever the truth, this cross-fire seems above all emblematic of the intensified scramble for business in a market that is in a seemingly inexorable decline.

**Fee income of US securities firms ($bn)**




# Clayton Dubilier to open in London

By Nikki Tait in New York

CLAYTON & Dubilier, the US leveraged buy-out boutique formed in the late-1970s and boosted by a couple of Kidder Peabody defections two years ago, plans to open an office in London before the end of 1990.

The New York-based firm said last week that it still sees an active LBO market in Europe, despite the current problems which such deals face in securing senior debt funding from bank lenders.

Mr Jo Rice, president, suggested that European banks could take a significant funding role and that the divestiture by larger companies of peripheral businesses was a trend which would continue.

A number of the larger LBO firms on Wall Street are known to have considered a more active role in the European market recently.

Their interest may have been prompted partly by the sharp downturn in domestic activity. The dollar volume of domestic deals, for example, tumbled to $7bn in the first half of 1990, compared with $24m in the same period a year earlier.

Mr Rice said that Clayton had no plans to raise investment funds to target specifically at the European market.

The London office will be headed by Mr Bard Howe, who was brought in to run Nu-Kote, a former division of Unisys, bought out by its management and Clayton for around $50m in 1987.

## Economics Notebook: capital in eastern Europe

# Essay on a clean sheet

Ask any economist these days about his or her current work programme and the answer is likely to be that it concerns eastern Europe, or European economic and monetary union, or both.

So it was no surprise to find last week that four award winners, including the first prize entry, in the annual American Express Bank essay contest had written on problems relating to the transformation of eastern Europe and the Soviet Union to market economies.

Mr Lawrence Brainard, the chief economist of Bankers Trust Co, won the top $25,000 prize for arguing that eastern Europe requires viable capital markets before the region can successfully reform its economies.

This idea is not particularly novel. Financial market reform in eastern Europe is high on the agenda of bodies such as the Organisation for Economic Cooperation and Development, the World Bank, the International Finance Corporation and new European Bank for Reconstruction and Development.

But Mr Brainard struck a less conventional note by stressing that an essential first step must be a clean out of the bad loans from the balance sheets of eastern Europe's banks.

Explaining his work at a seminar in London, he maintained that financial reform in eastern Europe has generally ignored the unrealised losses that have accumulated in the banking system through years of subsidising interest rates for uneconomic companies. In Yugoslavia, which is now starting to tackle this problem, such losses at the National Bank of Yugoslavia reached no less than 8.5 per cent of gross domestic product in 1987.

At the same seminar, Ms Magdolna Szőke, who works at Budapest's economic research institute, said Hungary made a big mistake when it created its commercial banking system in 1987. The bad loans on the National Bank's books were simply distributed among the new banks.

Mr Brainard wants eastern Europe's banking system reforming for two main reasons:

- to create a capital market and suitable conditions for privatisation and:
- to remove a source of serious economic disequilibrium from the eastern European countries.

In his view, balance sheet restructuring is vitally important because so long as the banks have an inherited overhang of troubled assets they "simply cannot play a role in the allocation of capital similar to that played by sound banking institutions in Western capital markets."

But how is the clean out to be done?

Mr Brainard suggested lifting the bad loans out of the banks' portfolios and providing a mechanism for injecting new capital. Yugoslavia is currently implementing a technique pioneered in Chile where the government replaces the banks' bad loans with long-term bonds which pay a positive rate of interest. In time, the banks' capital would grow because of the interest income and the elimination of the bad loans.

A different way forward might be to allow Western banks to set up significant commercial banking operations in eastern European countries without any legacy of bad corporate debts. This, he suggested, would help transfer skills to the eastern European banks and could pave the way for capital inflows into eastern Europe.

Mr Brainard admitted that dealing with the banks' bad loans would have a high budget cost for the countries involved. There would be bankruptcies, further increases in unemployment and losses of output among the companies whose borrowings have brought the banks into difficulty.

It was not surprising that Ms Szőke and Mr Rouben Indjikian, a Soviet economist, looked queasy at the prospect. Both stressed the risks of social unrest from getting the sequencing of reform wrong.

Ms Szőke was also unenthusiastic about giving financial privileges to foreign banks. Hungary's experience of allowing in foreign banks was that they took advantage of concessions offered to make a profit and brought little or no modern technology or know-how into the country.

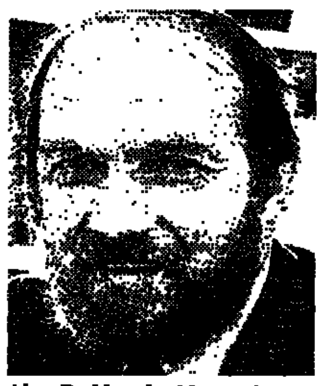
Mr Indjikian, who works at the United National Conference on Trade and Development in Geneva, wanted to know how the dubious bank assets would be valued.

He pointed out that east European and Soviet factories were often viewed by westerners as liabilities rather than assets. But too rigorous a valuation of banks' loans would make the people of the former Communist states feel poorer, and add to already growing social tensions.

### Crunch Time

Forewarned is forearmed. Professor Alan Budd, the chief economic adviser of Barclays Bank, has just performed a valuable service in describing what could happen if the economy experiences a "credit crunch".

Credit crunch has become one of the buzz words of 1990. The condition is usually caused by a weakening of the banking system's financial position, through a rise in bad debts. The complaint often appears when an economy is cooling. The bad debts cut bank profits and capital. The result is a slowdown or decline in lending as a result of prudence or banking regulations. In a worst case, this can force business failures, "fire sales" of assets, a consequent loss of wealth and even a crisis in the financial system.



Alan Budd: valuable service

Writing in the latest Barclays Economic Review, Prof Budd reminds us that a credit crunch can turn a mild recession into a severe slump. He is careful not to be too alarmist, pinning hope on timely action by the Federal Reserve System in case of need. But he says: "We certainly have some of the conditions for a credit crunch at the moment."

The main problem area is the US. But the UK personal and corporate sectors have high levels of debt and British banks have had to make increased provisions for bad debts.

Commenting just days after the Treasury forecast a relatively brief recession in Britain, Prof Budd points out that economic forecasters rarely predict the economic cycle accurately. Indeed, as a former head of forecasting at the London Business School, Prof Budd observes that "booms are stronger, and recessions are deeper than the economists expect."

**Peter Norman**

# UK equities remain in favour

By Tracy Corrigan

UK EQUITIES remain the most favoured asset for fresh investment, even though UK fund managers take a dimmer view of the performance of UK companies next year. This is according to Smith New Court's October survey of UK institutional investors, carried out by Gallup.

A balance of 50 per cent of fund managers plans to increase holdings in UK equities, little changed from 49 per cent last month.

But the euphoria engendered by the UK's entry into the exchange rate mechanism of the European Monetary System, which coloured last month's survey, has waned, as the slowdown in the economy forces managers to lower their expectations for corporate earnings and dividend growth in 1991.

Expected average growth of 4.5 per cent in earnings per share and dividend growth of 6.1 per cent last month have been revised down to 0.8 per cent and 4.4 per cent respectively.

The continued enthusiasm for investment in Britsh equities appears to reflect the 66 per cent balance of managers who are bullish on a 12-month view of the stock market in Britain.

Their market forecasts boost the FTSE 100 to 2,126 on a three-month view and to 2,363 on a 12-month view (the index was at 2031 at the time of the survey).

The oil price, seen rising to $37.7 over the next three months, is expected to fall over 12 months to $25.6.

Sentiment on the UK gilts market continues to improve, with a balance of 14 per cent of managers now planning to increase their exposure to gilts, against a negative balance of 3 per cent in July.

## COMPANIES AND FINANCE

# Danish group to dispose of 14% Hambros stake

By Richard Lapper

BALTICA GROUP, Denmark's biggest insurer, wants to dispose of the 14 per cent stake in Hambros, the UK merchant bank, it acquired in 1989.

Mr Peter Christofferson, chief executive of Baltica, said the stake was no longer a "strategic investment. It would be natural for us to divest these shares if offered the right price," he said.

GRE's shares jumped in London on Friday as 3.5m changed hands amid speculation that a stake was being built in the company. The shares closed at 183p, up 6p on the day but down from the high of 187½p.

Mr Christofferson said that since Baltica became linked to CVN network, these connections have become less important.

At the same time, the network of European insurance companies linking France's Groupe Victoire, Germany's Colonia, the Baltica Group and other companies is actively seeking a UK partner.

Baltica and Colonia both have subsidiaries in London. Baltica also has a small direct sales company in the UK, the Camberly-based Preferred.

But the network is giving priority to a possible link with one of the larger UK composite companies, either through a co-operation agreement or through cross-shareholdings. A move along these lines is likely next year.

Victoire owns 78 per cent of Colonia-Victoire Nederland, which in turn owns 78 per cent of the Dutch company, Nieuw Rotterdam and 55per cent of Colonia. Baltica is linked to CVN via Victoire which bought a 23 per cent stake in the Danish company last year. The companies also have a link with the French Nationalised company Union des Assurances de Paris, which has a 34 per cent stake in Victoire.

CVN is envisaged as the core of a multinational insurance group which aims to build a market share of at least 2 per cent in each European country. The development of connections in Scandinavia, and Eastern Europe including the Baltic states also figure high on the list of CVN's strategic priorities.

Meanwhile, Baltica continues to resist the attentions of Denmark's second biggest insurer, Hafnia. "We keep phoning them to let them know that we are not in favour of a merger," said Mr Christoffersen.

# Buy-out plan for Acatos founders

By Jane Fuller

MR IAN HUTCHESON's plan for a management buy-out of Acatos & Hutcheson, the edible oil and fat group, has foundered because agreement could not be reached with potential investors.

The proposal was to make a cash offer of 130p per ordinary share, valuing the group at nearly £43m. After Friday's announcement, the price fell4p to 109p- its all-time low.

Mr Hutcheson, whose family company owns about 37 per cent of Acatos said after a potential equity investor withdrew in October that, "the institutional people tried to put together a package to replace the equity plan." Although the finance had been available in principle, terms could not be agreed.

He stressed that the failure of the negotiations were not related to the financial or trading status of the group.

A profit warning in August – referring to higher-than-expected losses at a Spanish associate and at a UK plastics joint venture – has already led to the expected figure being downgraded to just below the previous year's £4.5m.





# Bremner closes main trading activity

By James Buxton, Scottish Correspondent

BREMNER, the former store-owner which has been the scene of repeated feuding over its chairmanship, is to close Carswell, the small Glasgow stockbroker which is its main trading activity, from November 16.

The company has had its shares suspended since July, when Mr James Rowland-Jones, the former chairman, was voted out of office by shareholders. It is currently run by four directors from the Scottish financial community who came in with the intention of ending the feuding. No chairman has been appointed.

The new board said that said that it was attempting to buy an established business which would enable the company to resume its listing, since the Stock Exchange held that Bremner currently had no trading activities which would support a listing. The Stock Exchange considers Bremner to be a shell company.

Carswell, bought for £1.35m in 1987, was making unacceptable losses, the company said. In the absence of any offers to purchase it it had been decided to close it and set the loss against gains for tax purposes.

It employs eight people, five of whom will leave the firm immediately on closure. Those leaving include Mr Denis McGuinness, its managing director, who is a former chairman of Bremner.

The company announced increased pre-tax profits of £358,000 for the year to May 31, compared with profits of £39,000 for the previous year. However before taking into account interest received of £662,000 it made a loss of £304,000 (£366,000) on turnover of £411,000 (£482,000).

It received £2.6m from the sale of the site of the former Bremner store in Glasgow, which was recorded as an extraordinary item after tax.

A dividend of 0.5p is being paid making 1.5p (nil) for the year.

# Eurotunnel looks for a dearer rights package

By Andrew Hill

PACKAGES OF rights to subscribe for new shares in Eurotunnel – "nil-paid" rights – should start trading at about 222p when the market opens today.

But Eurotunnel hopes demand for the nil-paid rights from new investors wishing to buy shares in the Channel tunnel project, or existing shareholders who want to increase their travel perks, will push up the price of nil-paid packages.

The company launched its three-for-five rights issue 10 days ago, aiming to raise £532m towards the £7.6bn cost of completing the fixed link. About 50,000 potential investors are believed to have called Eurotunnel's share information line to inquire about the rights issue since the group began publicising it some weeks ago.

The subscription period runs for three weeks – from today until December 3 – and only investors who subscribe and pay the full price for the new units will be eligible for half-price travel perks.

Eurotunnel's share price closed at 403p on Friday, a fall of 32p since Tuesday due to concern resurfacing over the level of claims for extra payments being made by contractors building the project.

The claims, which were detailed in the rights issue prospectus, published last week, come in two forms.

The first set of claims for £953m at 1985 prices are mainly to cover variations which the contractors say Eurotunnel has made to specifications laid down in the original contract.

The second set of claims is for up to 55 weeks extra time to complete the project. This would not necessarily mean that the project would be finished a year after trains are due to start running in June 1993 as contractors say they can still meet the original deadline if further money – on top of the £953m it is already claiming – is made available by Eurotunnel.

Eurotunnel is disputing both sets of claims which it says have largely still to be substantiated by the contractors.

Based on Friday's closing price, existing units should begin trading "ex-rights" today at about 369p – the average price of new and existing units – and the nil-paid rights would trade at 74p each, the difference between the 285p rights issue price and the market price of the existing units.

But to comply with French law, nil-paid dealings will take place in packages of the rights to buy three new Eurotunnel units, so the actual quoted price will be three times the price of one nil-paid unit.

Some analysts believe Friday's market price may have been depressed by investors selling their existing shares in the hope of buying nil-paid rights cheaply today.

Eurotunnel's special cheap telephone-based dealing service also opens today, giving potential investors the chance to buy nil-paid rights for a fixed commission of £10 per transaction.

# Heath to buy UK broking arm of Abaco Invs

By Richard Lapper

CE Heath, the UK insurance broker, expects to acquire the UK retail and wholesale broking activities of Abaco Investments.

Abaco is a subsidiary of British and Commonwealth Holdings, the financial services group which collapsed in the summer.

Abaco's other broking interests in the non-marine reinsurance, aviation and marine areas are not part of the deal, the terms of which Heath expects to announce next week.

The acquisition will roughly double the size of Heath's UK brokerage operation. Last year Abaco earned brokerage income of about £15m, compared to the £60m earned by Heath's worldwide brokerage operation.

Heath intends to finance the acquisition by placing shares with Hambros and National Westminster Bank on behalf of the CE Heath employee share ownership plan.

Mr Presland acknowledged that CE Heath had been involved in preliminary discussions with Johnson & Higgins, the US broker, over the last six weeks.

## INTERNATIONAL CROSS BORDER TAKEOVERS

| BIDDER/INVESTOR | TARGET | SECTOR | VALUE |
|---|---|---|---|
| Northern Telecom (Canada | STC(UK) | Telecom equipment | £1.39bn |
| Arjomari-Prioux (France) | Wiggins Teape (UK); | Paper merchant | £498m |
| International Paper (US) | Cookson Graphic Arts(UK) | Graph/Art supps | £110m |
| Sanitec (Finland) | Allia (France) | Bathrm Eqpmnt | £93m |
| Publicker Industries (US | 10 Hanson businesses | Various | £18.4m |
| Thyssen Indust (Germany) | Davies & Metcalfe (UK) | Mech Engineerg | £18.3m |
| Gp Fabricom (Belgium) | Sutcliffe Speakman div | Env/Engineerg | £6.5m |
| Worcester Gp (UK) | Radson (Belgium) | Boilermaking | £2.76m |
| Foseco (UK) | Certek Group (US) | Industl Maint. | £1.35m |
| Spie Batignolles (France<br>Davy Corp (UK)<br>Kaiser Engineers (US) | SDK (JV) | Aluminium facility construction | N/A |

Source: FT Mergers & Acquisitions International

Cross-border mergers, acquisitions and disposals abounded, writes Brian Bollen. The motivating forces included industry restructuring, the European single market and debt reduction.

The first two featured in Northern Telecom of Canada's £1.39bn offer for STC, the biggest bid for a UK company this year. If it goes through, the deal will mark another stage in the comprehensive restructuring of Europe's electronics industry, make Nortel the world's third-largest telecommunications equipment group and give it a pre-1992 springboard into Europe.

The deal also disproves the notion that banks have abandoned bid financing totally. Nortel has secured £1.5bn of loans from a group of four underwriters led by Barclays Bank, doubling its gearing to around 50 per cent.

Less straightforward was the merger between Wiggins Teape Appleton of the UK and French specialist papers business Arjomari-Prioux. This deal was, like Nortel's, welcomed as a good geographical and industrial fit. But confusion arose over who is eating whom. While WTA management will control day-to-day running of the merged business, doubts surround the extent of French influence behind the scenes.

UK industrial group Cookson continued the energetic assault on its debt, agreeing to sell its graphic arts subsidiary to International Paper of the US, for £110m.

Combined with the sale of its half of Tioxide to ICI this will halve Cookson's gearing to 50 per cent with a few selected disposals still under consideration.

Sanitec, a subsidiary of Finnish industrial company Wartsila, will become Europe's second-biggest producer of bathroom equipment with its purchase of 75 per cent of France's Allia. Hanson tidied up its portfolio, selling 10 businesses in the UK and US.

# Clydesdale up 20% at £70m

CLYDESDALE Bank, based in Glasgow and owned by the National Australia Bank, announced pre-tax profits up 20 per cent at £70.2m for the year ended September 30 1990, compared with £58.7m.

Advances to customers rose by 27 per cent, while bad debt provisions went up by 28 per cent to £10.7m. Deposits were up 25 per cent to about £650m.

Mr Richard Cole-Hamilton, chief executive, said the growth in profits matched by a similar rise in bad debt provisions reflected the fact that the Scottish economy was much less affected by recession than that of the south of England, and careful credit assessment by the bank.

Net interest income increased by 13 per cent and staff costs by 10 per cent, while other costs went up by 21 per cent.

Clydesdale paid NAB a dividend of £15m (£9m). Reserves rose from £110m in 1989 to £139m in 1990.











## BASE LENDING RATES

| | % | | % | | % |
|---|---|---|---|---|---|
| ABN Bank | 14 | Coutts & Co | 14 | NatWestminster | 14 |
| Adam & Company | 14 | Cyprus Popular Bk | 14 | Northern Bank Ltd | 14 |
| Allied Trust Bank | 14 | Dunbar Bank PLC | 14 | Nykredit Mortage Bank | 14½ |
| AIB Bank | 14 | Duncan Lawrie | 14 | Provincial Bank PLC | 15 |
| ● Henry Ansbacher | 14 | Equatorial Bank plc | 14 | Roxburghe Bank Ltd | 14½ |
| Associates Cap Corp | 15½ | Exeter Trust Ltd | 14½ | Royal Bk of Scotland | 14 |
| ● B & C Merchant Bank | 14 | Financial & Gen. Bank | 14 | Royal Trust Bank | 14 |
| Bank of Baroda | 14 | First National Bank Plc | 16 | ● Smith & Williamson Secs. | 14 |
| Banco Bilbao Vizcaya | 14 | ● Robert Fleming & Co. | 14 | Standard Chartered | 14 |
| Bank Credit & Comm | 14 | Robert Fraser & Ptnrs. | 14½ | TSB | 14 |
| Bank of Cyprus | 14 | Girobank | 14 | Unibank plc | 14 |
| Bank of Ireland | 14 | ● Guinness Mahon | 14 | ● United Bk of Kuwait | 14 |
| Bank of India | 14 | HFC Bank plc | 14 | United Mizrahi Bank | 14 |
| Bank of Scotland | 14 | ● Hambros Bank | 14 | Unity Trust Bank Plc | 14 |
| Banque Belge Ltd | 14 | Hampshire Trust Plc | 15½ | Western Trust | 14 |
| Barclays Bank | 14 | Heritable & Gen Inv Bnk. | 14 | Westpac Bank Corp. | 14 |
| Benchmark Bank | 14 | ● Hill Samuel | 14 | Whiteaway Laidlaw | 14 |
| Brit Bk of Mid East | 14 | C. Hoare & Co. | 14 | Yorkshire Bank | 14 |
| ● Brown Shipley | 14 | Hongkong & Shangh | 14 | | |
| CL Bank Nederland | 14 | ● Leopold Joseph & Sons | 14 | | |
| ● Charterhouse Bank | 14 | Lloyds Bank | 14 | | |
| Citibank NA | 14 | Meghraj Bank Ltd | 14 | | |
| City Merchants Bank | 14 | McDonnell Douglas Bnk | 14 | | |
| Clydesdale Bank | 14 | Midland Bank | 14 | | |
| Comm. Bk of London Plc | 14 | Mount Banking | 14 | | |
| Co-operative Bank | *14 | Nat Bk. of Kuwait | 15 | | |

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COMPANIES AND FINANCE

# Investors to meet Nat-Ned over merger proposal

By Ronald van de Krol in Amsterdam

A GROUP of institutional investors will meet Dutch insurer Nationale-Nederlanden tomorrow to express dissatisfaction with the terms of Nat-Ned's proposed merger with NMB Postbank.

A senior official at a leading Dutch pension fund said the group represented more than 20 institutional investors who together own more than 15 per cent of Nat-Ned's share capital.

The official, who is co-ordinating the group's efforts and who asked not to be identified, said the group was unhappy with the share-exchange offer unveiled last week. However, he said it was too early to say whether the investors might refuse to tender their shares.

A spokesman for the huge Dutch civil servants' pension fund Algemene Burgelijk Pensioenfonds said the fund, which owns between 2 per cent and 3 per cent of Nat-Ned, was leaning towards joining the group.

The merger plans were announced last Monday and trading in the companies' shares resumed the following day. Since then, Nat-Ned and NMB Postbank's shares have not moved in parallel with the terms of the offer, suggesting dissatisfaction in the market with the deal.

On Friday, Nat-Ned closed at Fl 48.20 ($28.65) and NMB Postbank at Fl 40.90. Under the complicated swap offer – which includes bonds and warrants as well as shares – NMB Postbank should be trading at around Fl 44, analysts said.

The partners have vigorously defended the deal, saying the market will come to understand the complex valuations needed to bring together a bank and an insurer. One of the complexities is the difference in undisclosed assets.

# Trygg-Hansa deal expected

By John Burton in Stockholm

TRYGG-HANSA, the Swedish insurance company, is expected to announce today that it will purchase half of Gota, the parent company of Sweden's fourth largest bank, sharing its ownership with SPP, the Swedish white-collar workers' pension insurance fund.

Trading in Trygg-Hansa shares was suspended on Friday on the Stockholm bourse. Trading in Gota's was suspended on Thursday.

The deal would be the third significant link-up between a Swedish insurance company and a bank following a government proposal six weeks ago to abolish the ownership barriers between the two sectors.

SPP bought a 44 per cent voting stake in Gota for SKr4.6bn ($827m) in late September, raising its total interest to almost 48 per cent.

This was followed two weeks later by Skandinaviska Enskilda Banken becoming the largest shareholder in Skandia, Sweden's biggest private insurance company, with the purchase of a 28 per cent voting stake for SKr4.7bn.

SPP is expected to welcome Trygg-Hansa's bid since other minority insurer shareholders in Gota threaten to block SPP's use of Gota's banking network to sell pension schemes.

# Kvaerner to acquire stake in Masa-Yards

KVAERNER, the Norwegian shipbuilding and offshore oil and gas technology group, is to acquire a majority stake in Masa-Yards, Finland's largest shipbuilding company built from the wreckage of Wärtsilä Marine, one of Europe's biggest shipbuilders, writes Enrique Tessieri.

The acquisition puts an end to hopes of merging Finland's three shipbuilders – Masa-Yards, Rauma-Repola and Hollming – into one Finnish shipbuilding company. The Kvaerner move follows unsuccessful merger talks between the government and the country's three shipbuilders.

Union Bank of Finland (UBF) and EffJohn, a Finnish shipper, sold their joint 52 per cent stake for FM120m ($34.2m) to Kvaerner through Clavis Maris Finlandia, a holding company which owns Masa-Yards.

The other Masa owners are the Finnish state, with a 27 per cent stake, Carnival Cruise Lines with 11 per cent and UBF/EffJohn with 10 per cent.

Kvaerner also has an option to buy the 10 per cent stake from UBF/EffJohn for FM60m in the next two years.

The acquisition will give Kvaerner 72 per cent of Clavis Maris Finlandia, the remainder of which will be held by *Masa-Yards.*

# New chief at Apple named

APPLE Computer has promoted Mr Michael Spindler to president of the company, replacing Mr John Sculley, who remains as chairman and chief executive, writes Louise Kehoe in San Francisco.

The appointment represents a "ringing endorsement" of Mr Spindler's success since his appointment as chief operating officer last February, Mr Sculley said.

Mr Joseph Graziano, Apple's chief financial officer, and Mr Albert Eisenstat, Apple's secretary, have been elected executive vice-presidents.

# Mitsubishi Estate up 17%

ROBUST real estate sales in the Tokyo metropolitan area contributed to favourable first-half results at Mitsubishi Estate, a leading Japanese real estate company, writes Emiko Terazono.

The company saw a 17.1 per cent rise in pre-tax profits to Y46.4bn ($359.6m) for the six *months to end-September* and turnover for the period showed a buoyant 30.1 per cent rise to Y166.5bn.

# Control of CISF gained by BCP

BANCO Comercial Portugues (BCP), Portugal's leading private commercial bank, won control of the Companhia de investimentos e Servicos Financeiros, Portugal's largest financial services and investment company, writes Patrick Blum in Lisbon. BCP raised its shareholding in CISF from 7.6 per cent to 51.1 per cent.

# Parretti sells package of film and TV rights

By George Graham in Paris

MR Giancarlo Parretti, the Italian financier, has sold a package of film and television series rights to help finance his $1.3bn acquisition of MGM-UA, the US film studio.

Mr Parretti's company MGM-Pathé has sold the television rights to MGM-UA's film catalogue for the entire French-speaking world, with the exception of Canada, to United Communication, a French company controlled by Mr Dominique Bigle and Mr Anthony Stevens.

The price of the deal has not been disclosed, but is smaller than the sale of MGM-UA's video rights to Time Warner, *announced on the completion* of the takeover three weeks ago, which involved a $125m advance.

United Communications claimed, however, that it was the largest rights deal ever signed in the French market.

The catalogue includes classic films from the Metro Goldwyn Mayer and United Artists studios, such as West Side Story. The deal excludes the James Bond films.

United Communications has distribution rights for several Columbia films, including the Columbia Classics series dating from before 1969, and produces several children's television series.

It has also tried to create a television market for petanque, *the French bowls game.*

The deal has been financed by Banque Pallas and Banque Bruxelles Lambert.

# Investors set to buy Renta

RENTA Inmobiliaria, the Spanish construction company controlled by Italian financier Mr Giancarlo Parretti, is set to be sold to French investors for about Pta35bn ($373m), Reuter reports.

Renta's buyers are a group of French investors led by businessman Mr Jean-Rene Bickart, said Ms Maria Teresa Atienza, Renta chairwoman. She said a unit of Italian food group Parmalat would also buy a stake.

Mr Parretti, whose Pathé Communications has just completed a $1.36bn acquisition of Hollywood studio MGM/UA Communications, controls 72.8 per cent of Renta, both directly and indirectly.

Under Spanish law before selling Renta its owners have to offer to buy back shares held by small investors. Such an offer was made last week, at a proposed Pta1,762.5 per share, but it still has to be approved by the Spanish authorities.

Mr Bickart is a co-shareholder of Mr Parretti's partner Mr Florio Fiorini in Sasea Holding, a Geneva-based financial holding company.

Sasea holds a 42 per cent stake in Mr Parretti's Dutch investment vehicle, Melia International of Amsterdam, which holds 57.5 per cent of Renta.

# Iberia predicts heavy losses

IBERIA, the state-owned Spanish airline, expects to fall into heavy losses this year, just three years after returning to profit and two years after paying its first dividend to the state since the late 1970s, writes Peter Bruce.

Mr Miguel Aguilo, Iberia's president, said he expected losses this year to be between $100m and $150m, following net profits of some $6m and $24m in 1989 and 1988 respectively.

The airline had been breaking even for most of the year but rising fuel prices, falling tourist numbers and growing economic uncertainty in Spain would lead to a serious drop in last quarter revenues, he added.

# Regulators seek to give Iosco greater influence

By Richard Waters

*SECURITIES* regulators from around the world this week will attempt to promote their mutual trade organisation into the big league of international financial regulatory bodies.

At the annual conference of the International Organisation of Securities Commissions, which starts today in Santiago, Chile, the regulators are expected to approve a plan to give more backbone to the organisation.

The aim is for Iosco to develop the same influence in determining common international regulatory standards as the Basle-based Bank for International Settlements (BIS) wields in the banking area.

Similar hopes were harboured *before last* year's conference in Venice, but then Iosco proved little more than a forum for debate.

In particular, a dispute over standardised capital adequacy rules for securities business exposed fundamental disagreements in the approach to regulation among its members.

Iosco still hopes to agree capital rules, although its efforts have been overtaken by similar work at the European Commission and the BIS.

This year, Iosco's 12-member technical committee is expected to approve a proposal to create the new post of executive chairman to give more impetus to what has until now been a loose association of interests.

*The proposal, presented by a* committee chaired by Mr Richard Breeden, chairman of the US's Securities and Exchange Commission, includes a plan to refocus the diffuse work of Iosco's technical committee.

## UK GILTS

# Forecasts blend gloom with optimism

THE UK government's latest economic forecasts for 1991, set out last Thursday in the Autumn Statement, are an intriguing mixture of gloom and optimism.

The forecasts support the widespread notion that the UK is in a recession and that the 14 per cent base rate will come down soon, a factor that would cause gilt yields to drop and prices to rise.

While cheered by such thoughts, many in the gilt market are sceptical about the second main strand in the government statement. This is the prediction by Mr John Major, the chancellor, of a sustained economic recovery from mid-1991, driven by a healthy growth later in the year in consumer spending and in exports of manufactured goods.

How realistic are these assumptions?

And to what degree is Mr Major viewing the future through rose-tinted spectacles with an election in mind?

These questions lead to the suspicion in some quarters that Mr Major intends to stimulate the economy in the early part of 1991, probably by a mixture of tax and interest-rate cuts.

Were Mr Major to do this in advance of concrete evidence that inflationary trends had burned themselves out, he could unwittingly create a re-run of the Lawson boom of 1986-88.

This is when the previous chancellor over-stoked the economy by relaxing monetary policy too much, causing retail prices to climb to the annual rate for September of 10.9 per cent, the highest figure for eight years.

Last week, as a result of these arguments, one section of the gilt market was talking about an early cut in interest rates, while another was pushing the view that such a move would be unwise because of the longer-term implications for the economy.

The two sets of views cancelled each other out, and accordingly the market failed to show much movement during the week, with yields of short-dated gilts falling slightly and those for longer bonds rising by a small amount.

The yield for the benchmark Treasury 9 per cent bond maturing in 2008 closed on Friday night at 11.01 per cent, almost exactly the same as the previous week, while its price over the week fell by ⅛ to reach 84¾.

On the crucial question of inflation, Mr Major believes that the annual rate will drop to 5.5 per cent by the final quarter of 1991.

That represents a fall by about half from the figure for last month, which is to be announced on Friday.

The chancellor's prediction depends largely on inflation peaking at about 11 per cent in October and drifting down to about 7 per cent by March 1991, followed by an accelerated decline.

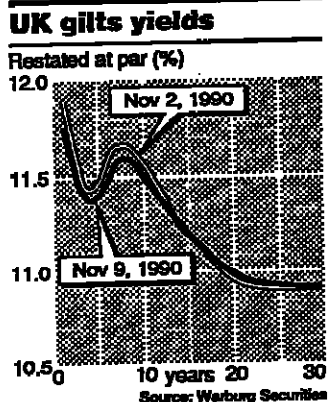
This smooth glide-path could be easily upset by any number of outside forces, a war in the Gulf being an obvious one.

However, what the gilt market is most worried about is whether the general pattern of inflation in 1992, which will be closely bound up with the chancellor's handling of the economy next year, will show Britain entering a period of new turbulence.

**Peter Marsh**

**UK gilts yields**

Restated at par (%)




Source: Warburg Securities

## GERMAN BONDS

# Bundesbank warning on unification costs

THE SUMS are big and are getting bigger. In a week in which it emerged that next year's net German borrowing requirement could approach DM150bn ($100bn) and that this year's would be well over DM100bn, the government bumped up its latest 10-year 9 per cent bond to DM17bn.

So far, the cost of uniting Germany has been borne by the capital market with aplomb rather than panic. Domestic investors, who took most of the latest issue, are attracted by a coupon nearly three times the inflation rate. Such a high real rate of interest is bolstered by the Bundesbank's commitment to a tight monetary policy and a strong D-Mark, especially at a time when rates abroad are tending to ease.

But while bond traders and institutional investors may still be taking events in their stride, leading Bundesbank officials have shown their impatience with Bonn, the Länder (states) and local councils. From the central bank's president, Mr Karl Otto Pöhl, downwards, the guardians of German monetary stability have warned about the need not only to curb non-vital spending, but also to find new sources of revenue. Otherwise, they argue, tax increases will be hard to avoid.

Their distaste for tax rises is economic not political. Clearly, Chancellor Helmut Kohl and his conservative-liberal coalition are keen to avoid discussion of tax hikes ahead of the election next month. What concerns the central bankers, however, is the dampening impact that such a move could have on the all-German economy, as the prosperous west gathers up the fragile new eastern Länder.

Not all of the high unification costs can be met by the capital markets, responsive though these are, stressed Mr Hans Tietmeyer, one of Mr Pöhl's fellow Bundesbank directors. He warned expectations would have to be cut on all sides if a "massive" and counter-productive tax increase were to be prevented. He directed his arguments at the Länder and local councils, also calling on public and private sector workers to be prepared to screw down their wage hopes.

By moving into the area of pay talks, Mr Tietmeyer strayed into territory the Bundesbank usually enters only with the utmost caution. His colleague, Mr Helmut Schlesinger, the deputy president, has called on Bonn and the Lander to consider privatisation of state-held assets as a way of helping to meet higher budget costs. All three central bank directors agree that the 11 west German Länder must shoulder a much bigger share of the financing burden for the five new eastern states if the bond market is not to be squeezed dry at a time when borrowing by private industry is also set to rise.

Eventually, the east German economy will recover sufficiently to alleviate worries over unity costs. But no-one knows when the turning point will come, how fast the improvement will be and what level of tax revenues the east will produce.

Mr Schlesinger was concerned last week that too rapid a rate of recovery could leave the public sector with such high interest payments that future budgetary scope would be constrained severely and the whole tax debate reignited.

**Andrew Fisher**

**NRI TOKYO BOND INDEX**

| December 1983 = 100 | 8/11/90 | Average yield (%) | Last week | 12 wks ago | 26 wks ago |
|---|---|---|---|---|---|
| Overall | 146.23 | 7.72 | 146.03 | 143.37 | 143.71 |
| Government Bonds | 143.03 | 7.65 | 142.88 | 140.09 | 141.51 |
| Municipal Bonds | 148.94 | 7.61 | 148.29 | 144.69 | 145.52 |
| Govt.-guaranteed Bonds | 151.54 | 7.70 | 150.96 | 147.76 | 147.71 |
| Bank Debentures | 144.49 | 7.76 | 144.48 | 142.09 | 141.16 |
| Corporate Bonds | 149.15 | 7.94 | 148.92 | 147.05 | 146.20 |
| Yen-denomi. Foreign Bonds | 151.18 | 8.73 | 150.72 | 154.74 | 152.65 |
| Government 10-year† | | 7.31 | 7.28 | 7.38 | 6.81 |

† Estimated par yield

Source: Nomura Research Institute



## US MONEY AND CREDIT

# Wall Street poised for cut in rates

A FRESH cut in short-term US interest rates seems in prospect and may follow rapidly from this week's meeting of the Federal Reserve's policy-making Open Market Committee.

As recession evidence mounts, Wall Street is convinced the Fed will ease monetary policy more aggressively than it has recently and that another quarter of a percentage point is coming off the Fed Funds rate in the next few weeks.

Much more convincing evidence of economic distress has piled up since the start of November, including very weak economic employment data for October.

Until now, the Fed's bias towards easing has been constrained by concern that this does not aggravate the worrying inflationary tendencies in the economy. But last Friday brought rather better news on this front, in the form of the October producer price figures.

The headline index jumped by 1.1 per cent, higher than expected, because of rising oil prices. But, the "core" producer price index, which excludes energy and volatile food prices, was unchanged.

This Friday will see the release of October's broader consumer price index, which includes services and imported goods and if this also suggests an abatement of inflation, it could provide a trigger for the Fed to ease, dropping Fed funds from 7.75 per cent to 7.50.

**US MONEY MARKET RATES (%)**

| | Last Friday | 1 week ago | 4 wks ago | 12-month High | 12-month Low |
|---|---|---|---|---|---|
| Fed Funds | 7.56 | 7.88 | 7.78 | 9.92 | 7.78 |
| Three-month Treasury bills | 7.26 | 7.30 | 7.36 | 9.11 | 7.20 |
| Six-month Treasury bills | 7.37 | 7.39 | 7.50 | 9.37 | 7.18 |
| Three-month prime CDs | 8.08 | 7.95 | 8.19 | 10.35 | 7.65 |
| 30-day Commercial Paper | 7.85 | 7.80 | 7.95 | 9.95 | 7.80 |
| 90-day Commercial Paper | 7.88 | 7.75 | 7.90 | 10.05 | 7.70 |

**US BOND PRICES AND YIELDS (%)**

| | Last Fri. | Change on wk | Yield | 1 week ago | 4 wk. ago |
|---|---|---|---|---|---|
| Seven-year Treasury | 102 5/32 | +7/32 | 8.32 | 8.40 | 8.68 |
| 20-year Treasury | 105 31/32 | +11/32 | 8.65 | 8.71 | 8.99 |
| 30-year Treasury | 101 5/32 | +¾ | 8.62 | 8.69 | 8.96 |

Money supply: In the week ended October 29, M1 rose by $1.6bn to $820bn.

Analysts are looking for a 0.3 per cent to 0.4 per cent rise in the CPI, excluding food and energy prices, on top of a 0.3 per cent increase in September.

Certainly, market activity over the past week has anticipated quick Fed action and a substantial recession. Investors seeking to lock in current yields meant demand was strong at the biggest ever sale of Government bonds – the Treasury's three-day $34.25bn quarterly refunding. Two weeks ago the outlook for the auction was poor, with Middle East turmoil creating uncertainty, foreign buying interest waning and equivocal domestic economic indicators making Fed policy harder to read.

In the event, much clearer signs of recession and a flight to quality meant the Treasury was able to sell the package at yields about a quarter of a percentage point lower than investors would have demanded two to three weeks ago.

But foreign interest was subdued. Some dealers reckoned overseas buyers took about 20 per cent of the long bond, substantially less than they used to do and while they were led as usual by Japanese institutions, some of the Tokyo houses may then have been rapid sellers. With relatively high real interest rates in Japan and a weak dollar, US Treasuries are currently not very attractive to them.

Analysts at Salomon Brothers say there have been indications that overseas investors may be returning to the US market, albeit on a smaller scale than before, with preliminary data showing foreign investors added $14bn to their holdings of US Treasuries in the third quarter.

Salomon's suspicion is that the main buyers have been official, or quasi official institutions, possibly including Arab countries such as Saudi Arabia and the United Arab Emirates, which have political reasons to support the US market. There is little sign of increased private investor enthusiasm.

For the entire week, the bond markets saw a continuous tussle between expectations of Fed easing and Middle East war fears which ended with the long bond gaining about ¾ in price, cutting its yield to 8.62, while at the short end the two-year Treasury note slipped seven basis points to yield 7.59 per cent.

With the market largely discounting a further 25 basis points off Fed funds, the question is whether this will be enough to trigger a cut in the politically important prime rate, which largely determines the mortgage rate and has a powerful impact on consumer confidence, which is falling.

The prime has been fixed at 10 per cent since the start of the year and the financially pressed commercial banks will be reluctant to bring it down quickly. So movement here might require more than a 25 basis point cut in Fed funds. Yet with some vocal anti-inflationary hawks on the Open Market Committee and war clouds gathering on the horizon, the Fed is likely to adopt an extremely cautious approach towards yet another cut before the end of the year.

**Martin Dickson**

**FT/AIBD INTERNATIONAL BOND SERVICE**

| U.S. DOLLAR STRAIGHT | Issued | Bid price | Chg on week | Yield |
|---|---|---|---|---|
| ABBEY NATIONAL 8 7/8 93 | 150 | 100 | +⅛ | 8.83 |
| ABN 9 1/8 94 | 200 | 100¼ | -⅛ | 9.02 |
| AETNA LIFE & CAS 7 3/4 16 | 200 | 96⅞ | +¼ | 8.04 |
| ALBERTA PROVINCE 8 5/8 96 | 750 | 97⅞ | +¼ | 9.15 |
| ALBERTA PROVINCE 9 3/8 95 | 600 | 101⅜ | [illegible] | 8.95 |
| AMERICAN EXPRESS 0 00 | 450 | 37¼ | +¼ | 10.32 |
| AMERICAN GENERAL 9 3/4 95 | 100 | 94⅞ | -1¼ | 11.19 |
| ANHEUSER-BUSCH 9 1/8 92 | 100 | 100⅝ | | 8.78 |
| ASIAN DEV BANK 0 04 | 1000 | 27⅜ | | 9.69 |
| [illegible] | [illegible] | [illegible] | [illegible] | [illegible] |
| SASKATCHEWAN 15 92 | 150 | 109½ | -¼ | 8.88 |
| SBAB 9 1/2 95 | 500 | 101⅛ | +⅛ | 8.97 |
| SEAGRAM CO 8 1/2 96 | 100 | 94½ | -⅛ | 9.83 |
| SEARS O/S FIN 0 98 | 500 | 45⅜ | +¼ | 10.84 |
| SEARS O/S FIN 11 5/8 93 | 150 | 104 | | 9.97 |
| SKANDIA INTL 7 1/4 92 | 200 | 98⅛ | +⅛ | 8.76 |
| SNCF 7 1/4 94 | 175 | 96⅜ | +¼ | 8.57 |
| SNCF 9 1/2 98 | 150 | 101½ | +⅛ | 9.20 |
| STATE BK STH AUST 9 1/4 93 | 100 | 100¼ | | 8.83 |
| STATE EL VICTORIA 10 92 | 100 | 102¼ | | 8.75 |
| [illegible] | [illegible] | [illegible] | [illegible] | [illegible] |

STRAIGHT BONDS: Yield to redemption of the bid-price. Amount issued is expressed in millions of currency units.
FLOATING RATE NOTES: US dollars unless indicated. Margin above six-month offered rate for US dollars. C.cpn = current coupon.
CONVERTIBLE BONDS: US Dollars unless indicated. Prem = percentage premium of the current effective price of buying shares via the bond over the most recent share price.
WARRANTS: Equity warrant prem = exercise premium over current share price. Bond warrant ex yld = exercise yield at current warrant price.

Closing prices on November 9

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Badger's installation of pollution controls at BFGoodrich's vinyl chloride plant at La Porte, Texas, effectively treats vent gas, organic liquids, heavy metals and contaminated water.

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# INTERNATIONAL CAPITAL MARKETS

SYNDICATED LOANS

## Nortel picks a poor time to seek funding

NORTHERN Telecom of Canada will have to pay a premium for bank cash to fund its £1.9bn acquisition of STC, the UK telecommunications equipment manufacturer, which was announced last Thursday. The company asked four banks to arrange £1.5bn in financing for the takeover last week.

But Nortel could probably not have chosen a worse time to visit the loans market as its bank lenders; Barclays, Citicorp, Royal Bank of Canada and Toronto Dominion Bank, will no doubt have stressed.

The cost of funding has risen substantially over the past few months and has probably not yet reached its peak.

Added to this, the huge funding requirements of the UK's soon-to-be-privatised electricity companies have left the market awash in sterling risk.

Nortel will pay an interest rate of as much as 62.5 basis points over the London interbank offered rate for most of its money and will be charged 75 basis points for its longer term financing needs.

The company's credit facility which has a maximum life of three years is divided into three tranches.

Tranche A will provide a bridging loan of £650m until STC completes its announced sale of an 80 per cent stake in ICL, the UK's largest computer manufacturer, to Fujitsu of Japan. The sale, which is worth £742.6m, is due to be completed on November 30.

Tranche A will have a maximum life of 364 days and will cost 62.5 basis points.

Tranche B is a loan for £450m and will run for two years costing 62.5 basis points until Tranche A is repaid when the rate will drop to 50 basis points.

The final part of the deal is a three-year revolving credit facility for £500m which will cost 75 basis points until Tranche A is repaid when it will cost 62.5 basis points, dropping to 50 basis points when Tranche B is repaid.

Although Nortel is a high-quality borrower, the banks involved in the deal are keen to ensure it is a success and believe they have pitched the pricing of the loan at a level to attract other lenders in general syndication.

The arrangers will now be looking for a group of sub-underwriting banks to commit around £100m in funds each to the deal. Once the sub-underwriters have been gathered together, the deal will be released into general syndication.

Moody's said on Friday it had put $560m of Nortel's debt under review for a possible downgrade. The debt under review includes Nortel's notes and Euronotes, Eurobonds and bonds issued in the US under its shelf registration, which currently carry a rating of Aa3.

The rating agency said it would focus on how quickly Nortel could reduce debt related to the purchase of the shares and will examine the potential benefits of combining the two companies.

● A loan understood to be in the market for the Mirror Group reflects banks' feelings on the current state of the media market since the £360m facility pays an interest rate of 62.5 basis points over Libor. Crédit Lyonnais and Lloyds are reported to be arranging the loan, but both declined to comment on the deal.

● Citicorp announced the closing of its loan for the UK interests of Elf Aquitaine, the French oil group.

The deal ended up being over-subscribed by £150m to £850m after it was re-priced. Barclays said its $700m financing for Oil Insurance closed.

● Energie Beheer Nederland, the Dutch state-owned energy company, mandated Swiss Bank to arrange a $800m Euro Commercial Paper programme.

**Deborah Hargreaves**

### EUROMARKET TURNOVER ($m)

| Primary Market | Stra | Conv | FRN | Other |
|---|---|---|---|---|
| US$ | [illegible] | 0.0 | 0.0 | 12,036.9 |
| Prev | [illegible] | 0.0 | 368.0 | 13,069.7 |
| Other | [illegible] | 5.5 | 728.1 | 4,901.9 |
| Prev | 2,283.0 | 1.3 | 2,439.6 | 4,607.1 |
| **Secondary Market** | | | | |
| US$ | 17,974.1 | 675.6 | 7,044.2 | 8,765.2 |
| Prev | 21,972.3 | 1,121.8 | 10,297.1 | 9,302.8 |
| Other | 16,869.6 | 961.4 | 6,149.1 | 30,625.2 |
| Prev | 26,322.6 | 1,599.2 | 9,511.1 | 42,250.3 |

| | Cedel | Euroclear | Total |
|---|---|---|---|
| US$ | 18,066.2 | 29,445.2 | 47,511.4 |
| Prev | 19,051.2 | 38,479.8 | 57,531.0 |
| Other | 25,063.6 | 35,638.4 | 60,702.0 |
| Prev | 34,085.7 | 54,828.5 | 88,914.2 |

Week to November 8, 1990 Source: AIBD

INTERNATIONAL BONDS

## Corporate treasurers face an increasingly hostile world

THE INTERNATIONAL bond market must look an ever more hostile place to corporate treasurers. Supranational and sovereign issuers, always prevalent in the market, dominate new issuance more than ever.

In part this reflects a long-term trend. The market has always been sensitive to corporate credit quality, an outlook which has been accentuated by unhappy experiences with corporate defaults and event risk.

The problem has deepened in the past two months, as portents of economic doom have grown. Corporate bond defaults in the US are running at record levels. So far this year, more than $11bn of publicly issued corporate paper has gone into default, more than in any other full year – including 1987, which included the technical default on $7bn of bonds by Texaco.

Failures of high-profile, highly geared companies such as British & Commonwealth and Polly Peck bring the bare statistics close to home.

Moreover, deterioration in credit quality is not restricted to leveraged credits. The slowdown has been biting at some of the corporate mainstays of the international bond markets, including Ford Motor, which had its long-term rating on $45bn of outstanding debt cut to Aa3 from Aa2 by Moody's Investors Service.

But, there is another reason for the problems experienced by would-be corporate borrowers; banks have changed their buying behaviour. Mindful of capital adequacy ratios, banks are shying away from corporate paper and concentrating their portfolio holdings in sovereign issues.

Under Basle capital ratio guidelines, holdings of debt securities issued by corporations carry a 100 per cent risk weighting, forcing banks to set aside capital equivalent to 8 per cent of the holding. But, debt issued by supranational borrowers carries just a 20 per cent risk weighting. Bonds issued by sovereign borrowers among the industrialised countries carry no risk weighting at all and do not have to be matched by underlying capital.

Hence, banks are increasingly buying sovereign and supranational debt but shying away from corporate debt, even Triple-A rated corporate debt. Syndicate managers suggest some Japanese banks are considering wholesale disposal of corporate debt securities. They are said to be making best use of valuable capital by selling corporate bonds in the secondary market and switching into more capital-efficient holdings of sovereign paper. As a result, the extra yields now being offered on corporate paper offers no incentive for the banks to buy.

The pull-back of bank buyers has, however, spurred the issuance of corporate securities which are more attractive assets. For example, several French companies are currently raising subordinated capital by issuing repackaged perpetual floating rate notes. The notes are issued via a special trust, which is managed by the arranger. The trust invests 25 per cent of the proceeds in zero-coupon bonds, usually US Treasury notes, on which redemption payments of the remaining 75 per cent are secured.

In addition to the tax and accounting advantages to the companies, the repackaged perpetuals are an attractive asset for bank buyers. The instruments carry a 30 per cent risk weighting on the portion secured by the zero-coupon bonds, against 100 per cent on ordinary unsecured corporate debt.

The structure is unlikely to be open to the capital-hungry banks themselves. The banking regulators have already ruled that such instruments can only be counted as Tier II capital, even though companies account for it as equity.

Moreover, secured debt instruments issued by a bank carry a 100 per cent risk weighting on the books of another bank. Hence repackaged perpetual floating-rate notes issued by banks are unlikely to be marketable.

However, such structured securities are no solution to the funding difficulties of companies or banks in the international bond market.

The picture is acute in the Euro-dollar sector, where demand for dollar-denominated assets has virtually dried up. The spread on Ford Motor's $250m 10-year issue, launched in July has widened from 90 basis points over US Treasuries to 185 basis points. In contrast, the spread on 10-year paper issued by the Republic of Italy has widened from 53 basis points to 67 basis points over a similar period.

At the shorter end of the yield curve, the trend is less intense but still noticeable. For example, three-year paper from General Motors has widened from 90 basis points to 115 basis points over US Treasuries. By contrast, the Republic of France's three-year paper has widened from 45 basis points to just 55 basis points.

Not all of this shift can be attributed to banks retreating from corporate paper. Analysts cite the weakness of the dollar and upward pressure on yields in competitive markets as reasons for investors to switch out of dollar paper per se.

Also, there is a rare consensus among economists that the dollar is due for a period of prolonged further weakness. The magnitude of the fall is the focus for debate, with predictions for the yen/dollar exchange rate ranging from Y105 to Y115 by the year end, from the current Y130 level. Hence there are far fewer buyers of dollar paper at current levels outside the US.

**Simon London**

### NEW INTERNATIONAL BOND ISSUES

| Borrowers | Amount m. | Maturity | Av. life years | Coupon % | Price | Book runner | Offer yield % |
|---|---|---|---|---|---|---|---|
| **US DOLLARS** | | | | | | | |
| Kobe Electric Railway‡♦ | 70 | 1994 | 4 | 4⅞ | 100 | Nikko Secs. | 4.875 |
| Kia Motors(c)†♦ | 30 | 1995 | 5 | (c) | 100 | Bayerische L'bank | - |
| **CANADIAN DOLLARS** | | | | | | | |
| World Bk♦ | 150 | 1995 | 5 | 11½ | 101⅜ | IBJ Int. | 11.127 |
| SBC Fin.(Cayman Is.)♦ | 150 | 1993 | 3 | 11½ | 101.60 | SBC | 10.767 |
| **STERLING** | | | | | | | |
| World Bk♦ | 100 | 1995 | 5 | 12 | 102.07 | Samuel Montagu & Co | 11.432 |
| AMP (UK)♦ | 150 | 2015 | 25 | 13 | 99.605 | S.G. Warburg Secs. | 13.030 |
| J.Sainsbury (Chan.Is.)(n)§♦ | 200 | 2005 | 15 | 8½ | 100 | S.G. Warburg Secs. | 8.500 |
| **AUSTRALIAN DOLLARS** | | | | | | | |
| ICI Australia♦ | 75 | 1994 | 4 | 13½ | 101⅜ | Hambros Bank | 12.954 |
| **ECUs** | | | | | | | |
| ABB Finance Inc.♦ | 100 | 1992 | 2 | 10½ | 101.32 | CSFB | 9.742 |
| Eurofima(l)♦ | 120 | 1995 | 4½ | 10⅜ | 102½ | IBJ Int. | 9.631 |
| **FRENCH FRANCS** | | | | | | | |
| BFCE♦ | 1bn | 1992 | 2 | 10⅛ | 100.80 | Credit Lyonnais | 9.790 |
| EIB(k)♦ | 1bn | 1998 | 7½ | 10½ | 100.83 | BNP | 10.310 |
| **SWISS FRANCS** | | | | | | | |
| Kato Denki(b)**§♦ | 30 | 1995 | - | 6⅛ | 100 | Nomura Bk (Switz) | 6.219 |
| Eur.Hy'Bk.Deutschen Bk**♦ | 60 | 1995 | - | 7½ | 101¼ | Deutsche Bk (Suisse) | 7.163 |
| Toyo Steel Manu.(e)**§♦ | 50 | 1995 | - | 6 | 100 | Yamaichi Bk (Switz) | 6.000 |
| Takarabune Co.(f)**§ | 35 | 1995 | - | 6 | 100 | Nomura Bk (Switz) | 5.993 |
| Foster Electric(h)**§ | 25 | 1995 | - | 6 | 100 | UBS | 5.989 |
| BP America Inc.**♦ | 75 | 1995 | - | 7½ | 101 | SBC | 7.254 |
| Aigan(l)**§ | 50 | 1995 | - | 6 | 100 | Nomura Bk (Switz) | 6.087 |
| Toyo Radiator Co.(m)**♦ | 50 | 1997 | - | 5¼ | 100 | Swiss Volksbank | 5.250 |
| Horipro Inc.(l)**§♦ | 50 | 1995 | - | 6 | 100 | Nomura Bk (Switz) | 6.000 |
| World Bank♦ | 200 | 1995 | - | 7½ | 101¼ | SBC | 7.072 |
| Katokichi Co.(r)**§ | 140 | 1994 | - | 6 | 100 | UBS | 6.000 |
| Electricite de France(p)♦ | 100 | 2006 | - | 7¼ | 101¼ | UBS | 7.057 |
| European Inv.Bank(q)**♦ | 100 | 1995 | - | 7½ | 101¼ | UBS | 7.236 |
| Quebec Urban Com.(s)**♦ | 15½ | 1995 | - | 8 | 100.80 | Credit Suisse | 7.801 |
| **FINNISH MARKKA** | | | | | | | |
| Okobank♦ | 300 | 1997 | 7 | 13½ | 101¼ | Bk of Tokyo Cap.Mkts | 13.216 |
| **LIRE** | | | | | | | |
| ENEL(g)♦ | 500bn | 1997 | 7 | 12 | 101⅛ | Bca.Nazionale D'Lavoro | 11.755 |
| **ESCUDOS** | | | | | | | |
| Euro.Steel & Coal Comm.♦ | 5bn | 1995 | 5 | 15¼ | 100⅝ | Bco.Portugues d'Inv. | 15.561 |
| **YEN** | | | | | | | |
| The CIT Group Hldgs.(d)♦ | 10bn | 1994 | 4 | 8 | 101⅞ | DKB Int. | 7.515 |
| Montreal Trustco Canada♦ | 5bn | 1992 | 2 | 8⅛ | 101 | IBJ Int. | 7.588 |
| Republic of Finland(c)♦ | 10bn | 1995 | 5 | 8.3 | 99 | Yamaichi Secs. | - |
| Nissan Cap.America Inc.♦ | 10bn | 1992 | 2 | 8 | 101 | Yamaichi Int. | 7.444 |
| Osterreichische L'bank♦ | 3bn | 1991 | 1 | 13.1 | 101⅛ | New Japan Secs. | 11.842 |
| Kubota**♦ | 20bn | 1994 | 4 | 7⅝ | 101⅜ | Daiwa Europe | 7.465 |
| Orix Corp**♦ | 20bn | 1995 | 4¾ | 8⅛ | 101⅜ | Daiwa Europe | 7.717 |
| Mitsubishi Estate♦ | 15bn | 1996 | 5¼ | 7.60 | 101⅞ | Nikko Secs. | 7.149 |
| Mitsubishi Estate♦ | 15bn | 1996 | 5¼ | 7.60 | 101⅞ | Yamaichi Int. | 7.148 |
| Nippon Yusen Kabushiki♦ | 10bn | 1995 | 5 | 7½ | 101.40 | Nikko Secs. | 7.157 |
| Orix Corp**♦ | 10bn | 1996 | 5¾ | 8 | 101.60 | Yamaichi Int. | 7.626 |
| Monte Dei Paschi d'Siena♦ | 8bn | 1992 | 2 | 8 | 101⅛ | Fuji Int. | 7.375 |
| British Gas Int.Fin(t)♦ | 5bn | 1992 | 2 | 8 | 101.275 | Daiwa Europe | 7.292 |
| **LUXEMBOURG FRANCS** | | | | | | | |
| ASLK-CGER(a)**♦ | 500 | 1994 | 3.167 | 10 | 102 | Banque UCL | 9.220 |
| Cerinvest NV**♦ | 300 | 1995 | 5 | 9⅞ | 102 | Kredietbank S.A. | 8.356 |
| Compagnie Bancaire**♦ | 400 | 1994 | 3.167 | 10 | 101.80 | Banque Paribas (Lux.) | 9.294 |
| Cr.Lyonnais PK Air Fin.**♦ | 300 | 1993 | 3 | 10¼ | 101.95 | Credit Lyonnais | 9.350 |
| Bankers Trust Co.♦ | 800 | 1997 | 7 | 10 | 101⅜ | SGL | 9.845 |
| BIL**♦ | 500 | 1994 | 3.167 | 10 | 101.90 | BIL | 9.257 |
| AB Wilhem Becker**♦ | 300 | 1993 | 3 | 10¼ | 102 | Banque Paribas (Lux.) | 9.454 |
| Credit Lyonnais (Lux.)**♦ | 500 | 1995 | 5½ | 10 | 102 | Credit Lyonnais | 9.480 |
| Forsta Sparbanken**♦ | 500 | 1993 | 3 | 10⅛ | 101.95 | BCEE | 9.350 |
| Tea Holdings S.A.**♦ | 300 | 1995 | 5 | 10¼ | 101⅜ | BNP (Lux) S.A. | 9.791 |
| Gersbank (Lux.)**♦ | 300 | 1994 | 3.167 | 10 | 101.90 | BCEE | 9.257 |

**Private placement. §Convertible. ‡With equity warrants. †Floating rate note. ♦Variable rate note. ♦Final terms. a) Fully fungible with existing deal launched 29/10/90. Non-callable. b) Put option 31/5/93 at 105¼% to yield [illegible]. Coupon payable semi-annually. Conversion premium fixed at 2.5%. c) Samurai dual-currency issue. [illegible] Note: Yields calculated on AIBD basis.



LEGAL COLUMN

## CBI will support negotiated way of resolving disputes

By Robert Rice, Legal Correspondent

ON WEDNESDAY the CBI will throw its weight behind the use of alternative dispute resolution (ADR) in the UK as a means of achieving better commercial solutions to domestic and international business disputes when it hosts the official launch of the Centre for Dispute Resolution (CEDR).

CEDR, a non-profit-making organisation supported by industry and professional advisers set up to promote and encourage the use of ADR, is the brainchild of Ms Eileen Carroll, a solicitor and litigation partner in the London law firm Turner Kenneth Brown.

Two years ago she spent six months working in San Francisco, with Thelen Marrin Johnson and Bridges (now associated with TKB) where she got some firsthand experience of ADR techniques. She returned to London convinced of the benefits ADR had to offer to UK businesses by focusing on the quality of settlements and providing earlier and more creative solutions to commercial disputes than those achieved by last-minute settlements.

ADR has been widely used for many years in the Pacific Rim, particularly in Japan. It began to develop in the US in the mid 1970s, when concern over the "pathology of litigation" within American society was at its highest.

A number of companies' lawyers in US industry got together to form the Centre for Public Resources, a non-profit-making organisation (on which CEDR is modelled) dedicated to promoting private resolution of disputes without resort to the unwieldy, expensive and inefficient US litigation system.

The centre now boasts a membership of more than 350 companies, almost half of which are included in the Fortune 500. In 1988, 61 leading US corporations saved an estimated $49m (£24.9m) in legal costs by employing ADR techniques.

ADR has proved popular with industry, largely because it enables a settlement of commercial disputes without destroying continuing business relationships. The successful resolution by mediation of a four-year dispute between IBM and Fujitsu concerning copyright infringement of IBM software led Fujitsu to say recently: "The solution of these disputes fulfils Fujitsu's desire to have rivalry with IBM returned to its natural and appropriate arena – the marketplace."

The resolution included not only an agreed arbitration award dealing with Fujitsu's past use of IBM software but also a framework for the resolution of outstanding issues and future disagreements. It included the creation of a secured facility to review new software before public release with a view to resolving any disputes before it was marketed.

ADR techniques rely very much on retaining the parties' involvement in shaping the solution. They are private, voluntary and non-binding.

There are many different forms of ADR, but the most common in the US – and the techniques most likely to be adopted here – are mediation and the mini-trial.

The mini-trial usually comprises a short presentation of the issues by each party's house lawyer in front of senior executives from each side who are preferably unconnected with the actual dispute.

Normally it takes place in the presence of a neutral chairman, frequently a lawyer respected by both sides as an expert in the relevant field.

After presentation of the issues, the executives retire and try to negotiate a settlement. If they fail, the chairman may be asked for his views as to the likely outcome of any ensuing litigation, after which the executives may make another attempt at settlement.

If they agree, the terms of the settlement are then incorporated into a written document which is enforceable under ordinary contract law. If, however, after a set period (a week or 10 days) no settlement has been reached, the ADR is deemed to have failed and either litigation or arbitration generally follows.

A number of significant commercial disputes have been settled by mini-trial in the US over the past 10 years, among them Borden's $200m trust suit against Texaco and American Can's $41m suit for breach of contract against Wisconsin Electrical Power.

Mediation is again a private and voluntary process but it can be considerably less formal than the mini-trial. The parties, generally with the help of their lawyers, select a neutral to assist them in reaching an acceptable agreement.

The qualifications of the neutral will depend on the nature of the dispute. In some cases it will be best to have a technical expert in the area under dispute, in others a lawyer.

The parties will generally first meet the mediator to discuss and define the issue to be resolved. They then make an informal presentation of their cases in a joint session, which is followed by a series of "caucuses", or open and frank discussions about the merits and demerits of each party's case.

The mediator's role is to persuade them to focus on their underlying interests and concerns and move away from fixed positions that often cloud the real issues. "It is his function to act as the facilitator or honest broker," says Ms Carroll.

Mediation has been used with increasing success in the US in recent years, most recently in the asbestos litigation which is sweeping America, where the defence costs alone are put at $30bn.

Is ADR suitable for the UK with its very different and less costly litigation system? Ms Carroll says yes. The US and UK litigation systems have common features, she argues.

Four our of five cases settle, albeit late in the trial process; there is the same uncertainty as to the result and the possibility of appeal; delays are the same, as is the drain on executive time. There is the same unpredictability about costs. The parties lose control over their dispute and there is always the same possibility with litigation that the commercial relationship will be destroyed.

Even so, ADR will not be suitable in all cases, according to Dr Karl Mackie, the Nottingham University law lecturer who will be the first chief executive of CEDR.

Parties and their lawyers should at least consider ADR in any case which they know does not need to be tried and will probably settle, he says. But in cases where you know you will not negotiate, then ADR will not be suitable. It will not be suitable where there is a novel or difficult point of law involved which needs a court ruling.

The launch of CEDR does not signal the dawn of ADR in the UK. US attorney Richard Schiffer has been running a commercial mediation service in the UK through his company IDR Europe for 18 months now with some considerable success.

IDR Europe offers mediation services in the areas of high technology, insurance, construction, shipping, and consumer affairs. Its mother company, US Arbitration and Mediation, is the largest private mediation company in the world and handled 3,400 cases last year.

The company must take much of the credit for awakening interest in ADR in the UK. Mr Schiffer believes there are very few disputes that are not suitable for mediation, and the cost advantages speak for themselves.

The cost of one day's mediation with IDR is only £1,250 and the company does not expect any mediation to cost more than £2,000. In the US, four fifths of all cases that go to mediation settle on the first day and a further one in ten within a month of opening talks, he says.

The arrival of CEDR is nevertheless significant, largely because of the close involvement of industry right from the start. Among its founder members are American Express Bank, Balfour Beatty, BAT Industries, Beazer, Conder Group, Costain Group, Digital Equipment, Grand Metropolitan, Ford of Europe, Guardian Royal Exchange, ICI, Smiths Industries and Trafalgar House Construction, plus a dozen of the leading commercial law firms and four of the leading accountancy firms.

If those businesses can be persuaded to include as standard in their commercial contracts clauses specifying that disputes should, where possible, be settled by ADR, then the future of mediation and mini-trials as a significant force in the resolution of commercial disputes seems assured.

As Victor Hugo said: "An invasion of armies can be resisted, but not an idea whose time has come."

FINANCIAL TIMES SURVEY

# WORLD OIL INDUSTRY

Monday November 12 1990



The Kuwait crisis, the international response and the violent effect on oil prices highlight the instability of the world's biggest oil basin. But they also demonstrate the industry's resilience in being able to carry on business as usual. **Steven Butler** reports

## Cool nerves in a crisis

**Study in contrasts at the International Petroleum Exchange in London as oil prices seesaw during the Gulf crisis. The mood varies according to the news from the Middle East**

THE international oil industry has once again been tossed into turmoil by a severe political crisis in the Gulf. Oil prices began to rocket the moment Iraqi troops were reported to have crossed the border into Kuwait. They doubled inside a few weeks and have remained exceptionally volatile.

The world's refining system has been exposed as inadequate. With the loss of the sophisticated equipment in Kuwait's refinery, the industry is having difficulty processing heavy crude oils into the lighter products that are in demand. Prices for jet fuel and the chemical feedstock naphtha have risen to a point where the aviation and petrochemicals industries are in serious trouble.

The Paris-based International Energy Agency held a series of emergency meetings to monitor the adequacy of world oil supplies following the sudden removal of 4.3m barrels a day of Iraqi and Kuwaiti oil from world markets. Yet amid reassuring talk about the adequacy of crude oil supplies there was much handwringing and a feeling of intense helplessness because the world had never thought to prepare for a shortage of refining capacity.

Oil companies have faced a barrage of criticism that they profiteered from the crisis with each rise in petrol pump prices. Yet the public shed no tears when third-quarter results finally came in and showed that Big Oil was not doing so well after all. Many of the integrated oil companies faced losses in refining and marketing that more than offset the gains from selling oil that they produced. Under public pressure, and in a highly competitive market place, oil companies proved unable to pass through price increases to consumers.

Finally, there was no lack of scornful words for the wild gyrations of the market itself. In the US a public outcry was raised over greed in the riotous futures trading pits of the New York Mercantile Exchange, while the public had no choice but to pay more at the pump. The swift run-up of oil prices was blamed on "speculators".

It is plainly too much of an exaggeration to call this business as usual, yet Iraq's invasion of Kuwait is certainly not the first, nor the most severe crisis faced by the international oil industry.

Indeed many in the oil industry have pointedly refused to call the event in the Gulf an oil crisis, precisely because crude oil supplies have proved plentiful. Iraqi and Kuwaiti exports were rapidly replaced by increased production from Saudi Arabia, the United Arab Emirates and Venezuela, as expected.

But countries as far afield as Iran and Mexico have managed to squeeze out more production than had been thought possible. As a result the world is set to make it through the winter months with ample oil supplies – provided the weather co-operates, production machinery holds up and there are no further disruptions to Gulf supplies.

The biggest casualty of the crisis ought to have been the Kuwait Petroleum Corporation. The KPC lost its entire crude oil production, crude oil supply to its extensive overseas operations, and the core of its refining capacity. Yet the board of the KPC escaped from Kuwait and is continuing to manage the overseas operation from London. After some weeks of complex legal manoeuvring aimed at unfreezing assets in different countries, the business appears to have returned to normal, with crude supplies coming mainly from Saudi Arabia and the United Arab Emirates.

The KPC, like the rest of the oil industry, expects crisis conditions to be a passing phenomenon. Although no-one predicted events in the Gulf, the oil industry knew of the potential for trouble there. The fact that it has come swiftly and severely has not led to any rethinking of strategic direction. "We keep cool. I am absolutely alert. Yet today we do not say the 1990s will be basically different from what we had expected," says a senior executive of a large European oil company.

The oil industry has spent most of the past five years screwing down costs throughout the business. This proved to be a relatively easy task when oil companies cut capital spending deeply following the oil price collapse of 1986. Away from the high-technology end of the business, basic service and supply companies were forced to cut prices as demand withered.

Capital spending for oil exploration and production is still significantly below levels hit before 1986. Petrocompanies, the data services company, calculates the worldwide upstream capital expenditures of 20 large oil companies at $31.2bn last year, compared to $38.2bn in 1985.

This is nonetheless far more than the $24.4bn spent in 1987, and signs are that capital expenditures, on both exploration and production, are set to continue rising.

It is likely to be boosted further should oil prices remain high, although most of the large companies will persist with policies of maintaining a steady, consistent programme that is blind to short-term fluctuations.

Although spending in the US is falling steadily, the US companies, which continue to dominate the industry, are looking farther afield. Eastern Europe and the Soviet Union represent uncharted territory where joint ventures are being patched together with amazing rapidity.

Foreign oil company exploration in coastal Vietnamese waters is now under way, although US companies are still barred from participating by the US government.

Venezuela has accepted foreign equity participation in a $3bn natural gas project, in which Shell, Exxon, and Mitsubishi are to be offered a 68 per cent stake.

The project marks an important political change in a country where strong nationalism would have prevented such foreign direct participation.

The oil industry is betting Venezuela and other countries are setting a new trend – that growing realism and pragmatism in the resource-rich countries will lead to new forms of commercial agreements that will bring in the technology, capital, and marketing resources of the oil companies on mutually beneficial terms.

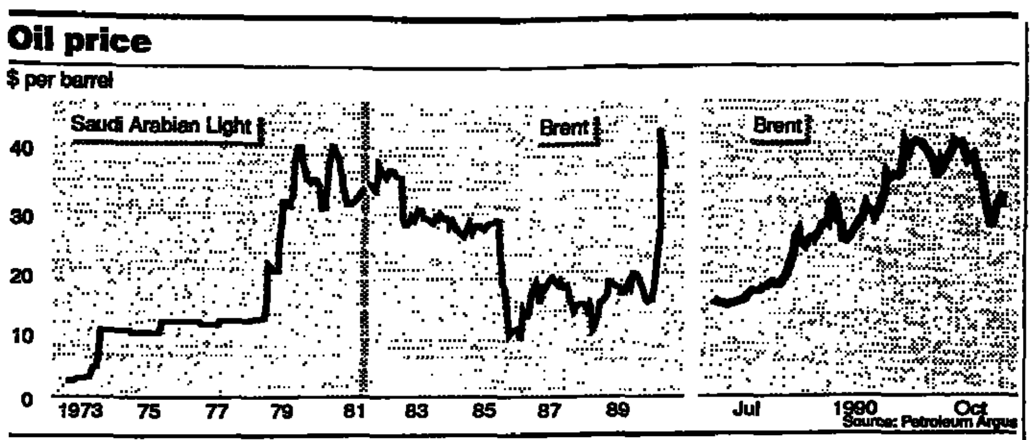
In refining and marketing, the oil companies face even bigger hurdles. Huge investments will be required – up to $16bn by the end of the century in Europe and America, according to consultants Arthur D Little – to upgrade refineries to meet the demand for cleaner, chemically lighter fuels, and the requirements of clean air legislation. These are high risk investments, however.

The precise levels of sulphur which will be allowed in fuels is uncertain, yet equipment installed today will be expected to operate for many years.

Refineries also have a poor record earning money. Although they have done well for most of this year, the Gulf crisis has plunged most of them into the red. Because of environmental considerations, governments are likely eventually to enact legislation that will curb oil consumption. But the uncertain effect of these policies makes the demand projections that support large investment a nightmare. The stakes and the high risks are likely to make the refining industry increasingly hostile to small, independent operators.

The industry has been put on the defensive by environmental disasters such as the Exxon Valdez, and by the inability to allay suspicion that Big Oil exploits the public, during crisis or otherwise. Governments look certain to become more active in the years ahead setting policies that directly affect oil industry operation. Perhaps the greatest danger of all facing the industry is that unless it can improve its public credibility, it will not be able to influence the direction these policies take.

## WORLD OIL INDUSTRY 2




**Steven Butler** assesses the future of prices

# Gulf crisis compounds the uncertainty

ONE OF the more remarkable achievements of President Saddam Hussein is that he has made oil at $25 a barrel – Iraq's proposed target price at the meeting of the Organisation of Petroleum Exporting Countries in August – look cheap.

This situation is unlikely to persist for very long. Yet the Gulf crisis has raised many fundamental questions about the future of oil prices because so many variables affecting prices have become uncertain.

Before Iraq's invasion of Kuwait, most oil experts expected prices to climb gradually in real terms during the decade. Worldwide oil demand had been growing by about 1m barrels a day each year, and was expected to continue at roughly the same pace. Oil production outside Opec would at best remain stable. This would leave Opec, and particularly the five big Gulf producers – Saudi Arabia, Kuwait, the United Arab Emirates, Iraq and Iran – to fill the gap. As the world became increasingly dependent on Middle East exports, the reasoning went, prices would rise.

An important dissenter from this view was the Royal Dutch/Shell group. Although Shell prepares scenarios that project both high and low oil price developments, statements by Shell executives clearly reflected a more bearish view of prices, in which environmental pressures would help to reduce demand while cheap, incremental production capacity would be forthcoming in the Middle East.

Future prices could be affected by several factors:

■ Opec. Opec reacted to the crisis with political deftness. After just a few weeks of political bargaining, a majority of Opec members met and agreed to suspend production quotas, thus allowing all Opec members to produce up to capacity and preserving the cartel's integrity. Assuming Iraq is eventually defeated, the back of the price hawks withinOpec will have been broken. On the other hand, a number of Opec ministers privately say that Iraq's desperate act of invading Kuwait showed that the wealthy Opec members had to pay more attention to the poor Opec members' interests. This may eventually mean more production restraint.

> **Before Iraq's invasion of Kuwait, most experts expected prices to climb gradually in real terms during the decade**

Even so, Kuwait's oil minister, Mr Rashid Al-Ameeri, would not guarantee at a conference in London that Kuwait would stay within its Opec quota after the crisis. Kuwait would need to maximise production and revenues to rebuild the country. In effect it appears that Opec after the crisis may not be very different from Opec before the crisis. Its actions will be the result of the complex and ever-changing political and economic interests of its members.

■ Production capacity: Having mined at least a quarter of Kuwait's oil wells, Iraq is in position to cut Kuwait's production capacity for years to come. Saudi Arabia, on the other hand, is moving forward with a programme to lift production capacity from about 8m b/d to 10m b/d in three years, although it faces constraints looking for the trained manpower to achieve this. It is possible to draw up widely different, but wholly plausible medium- to long-term production capacity scenarios. However, some analysts believe that the price rise caused by the Gulf crisis could encourage more investment in production facilities in the short run, while any capacity knocked out in an eventual war would eventually be replaced. This would leave the world in, say, five years' time with more capacity than would otherwise have been the case.

■ Demand: Demand can only be restrained by today's high prices, not stoked. The slowdown in the US economy will have the same effect. In the longer term, today's high prices seem likely to encourage investment in more energy efficient industrial equipment and in consumer durables. The crisis could also spur efforts by importing countries, particularly the US, to restrain oil consumption in order to reduce dependence on imports.

On the other hand, many analysts point out that scope for energy savings is much less than before because the industrialised economies are so much more energy efficient than they were previously. If past experience is any guide, developing countries will be unable significantly to curb the growth in oil demand unless their economies grow more slowly.

On balance, the Gulf crisis appears to imply that prices would be lower than they otherwise would have been later in the 1990s because of more supply and lower demand. Yet the arguments are hardly conclusive. Given the uncertainties over future oil prices before the crisis, it is a brave man who would bet everything on where oil prices are headed when the uncertainties have only increased.

The markets have come in for a bashing

# Testing times ahead

THE 1990 Gulf crisis has been the first real test of modern-style oil markets, in which oil is traded as a commodity in a manner not very different in principle from cocoa or wheat. They have already failed the test in some eyes, but the debate (and, of course, the crisis) is far from over yet.

The oil markets have come in for a bashing from political leaders upset over wild fluctuations in oil prices. And there have been at least private discussions among political leaders over whether futures markets ought to be closed to put a lid on speculation and reduce price volatility. The Gulf crisis and high volatility has been good for the International Petroleum Exchange in London and the New York Mercantile Exchange, where trading volumes have soared for crude oil and refined product futures contracts.

Yet the exchanges have so far argued successfully that they are not responsible for high and volatile prices, but merely reflect the forces of supply and demand. The Nymex, for example, has cited figures showing that more than 90 per cent of open interests – positions which remain open after the market closes – are held by companies in the oil business presumably for the purpose of commercial hedging, not speculation. In any case, the rapid swings of oil prices illustrate how a speculative short or long position can quickly come to grief. The IPE has pointed out that the cash market price for Brent oil has during much of the crisis been higher than the futures market price, indicating that it is not speculation in futures that is driving the market.

While outsiders have suspected something might be wrong with the market, the industry itself has by and large congratulated itself that it has coped with the crisis efficiently. Unlike earlier oil market crises, when only a small proportion of prices were determined in the spot market, now nearly all oil changes hands at spot market prices.

Prices have been extremely volatile, as the fear of war rises and falls. Yet traders have patted themselves on the back that "shortages", in the form of petrol queues and the like, have not materialised and that oil is being delivered where needed. This is no mean feat, given the dislocation to world trade caused by the sudden removal of 4.3m b/d of Kuwaiti and Iraqi exports, gradually replaced from different sources by different quality oil.

A dissenting view was expressed by Mr Paul Horsnell of the Oxford Institute for Energy Studies, who described what he calls the disintegration of world oil markets and a "spectacular" collapse of arbitrage between different markets. The evidence is the wide price differentials that emerged during the crisis between crude oil and refined products, differentials which would normally have disappeared as traders moved cargoes between regions to take advantage of higher prices. The failure of prices to equalise appeared to indicate that some oil companies were in effect hoarding oil and not responding to normal price signals.

Traders agree that the market was subject to severe dislocation that threw traditional price relationships out of alignment. However, many believe most of the dislocations have been ironed out. North Sea Brent crude, for example, selling at a premium to the US benchmark, West Texas Intermediate, in September, had fallen back by mid-October and was selling at its usual discount. The steep premium for prompt deliveries of oil, a good indication of a physical shortage and panic buying, has also dropped sharply.

The short-term market reaction was severe in part because a class of buyers who depended on Iraqi and Kuwaiti exports suddenly found themselves without supply and were desperate to find replacements. By mid-October distressed buyers had evidently left the market.

The postmortem over the market's behaviour during the first months of the crisis will continue and there are likely to be surprises ahead as events in the Gulf unfold.

**Steven Butler**

Spotlight falls on International Energy Agency

# A do-nothing stance

AFTER a decade in which most people forgot the International Energy Agency even existed, the IEA has suddenly been tossed into the spotlight as the only western agency equipped to deal with a crisis in oil markets.

The IEA's 21 members have between them more than 1bn barrels of strategic oil reserves which could be released to the market during a crisis. The IEA governing board also has the authority to order immediate measures to restrain consumption in the event of a shortfall.

However, in spite of the climb in prices to more than $40 a barrel, the IEA has insisted that oil markets are well supplied with crude and it need do nothing other than stay well prepared to act should the situation deteriorate.

This apparent "do-nothing" stance has brought criticism from oil exporters in the Organisation of Petroleum Exporting Countries, as well as commentators who argue that the IEA should seek to stem the economic damage caused by high prices.

The IEA was established in 1974 to co-ordinate a western response to the 1973 crisis, or, to put it more crudely, to bust Opec. It is a sign of the times that France, which originally refused to join, has now applied for membership.

A more striking, and richly ironic, sign of the new era was a call by one of Opec's radical state's, Iran, for a joint meeting between Opec and the IEA in which an increase in Opec output would be traded for an IEA release of stocks.

Mrs Helga Steeg, the IEA executive director, immediately rejected the call as impractical, both politically and economically. Mrs Steeg was correct. The IEA operates within a strict legal framework that limits how it can respond to developments in the markets and there is no apparent scope for this to be negotiated with non-IEA organisations.

The IEA's biggest weapon is the oil sharing agreement activated by a 7 per cent fall in supplies to individual members or to the group as a whole. This triggers a mandatory pooling of oil resources and a reallocation according to which countries have fallen short. The present crisis, however, has led to at most a net 2 per cent fall in supplies, as most Kuwaiti and Iraqi exports have been made up. Consequently the IEA's biggest gun is still in the holster. Nonetheless the markets have panicked, and the IEA may still wish to take action by releasing strategic stocks or restraining demand.

A newcomer would be forgiven for supposing that the IEA is merely a department of the German government. Mrs Steeg is a former Federal Republic economic official, and Mr Ulrich Engelmann, chairman of the governing board, is a German government official.

With forcible and consistent logic both have argued against any attempt by the IEA to intervene in oil markets except to counter a physical shortfall in oil. They say present high prices are caused by fear of war, and that the IEA has no business intervening to counter market psychology. Mrs Steeg argues further that any attempt to set up a buffer stock to stabilise the market

**Helga Steeg: rejected Opec's call as impractical**

would follow other commodity agreements down the path of failure. Critics have argued that a shortage of oil is signalled precisely by a rise in prices and that no physical shortage will ever appear so long as the markets are left to do their job.

Prices would simply rise in the event of a shortage until the world was forced into recession and demand cut.

The debate has been even further confused by the IEA's unwillingness to define what constitutes a physical shortage of oil. Mr John Easton, the US assistant energy secretary who represents the US at the IEA, as good as admitted the IEA did not know how to do this when he said: "It presents us with the difficulty of deciding when there is a shortage. We can't exactly quantify what this is, but we think we'll know it when we see it."

There is probably a more sensible explanation of the IEA's position. This is that the demand for oil is relatively unresponsive to high prices in the short run.

Moreover to the extent that high prices can help to curb consumption in a crisis, higher prices passed through quickly to consumers would be performing a useful role. Beyond a certain point however the "shortage" becomes too great, as would be the price rise.

The difficulty with this, however, is that an attempt to monitor the sufficiency of oil supplies by counting up barrels of oil may not in reality be any more of a precise measure than looking merely at prices. In the end, it is the high price of a commodity, not the physical shortage per se which causes economic damage.

**Steven Butler**

Economic outlook

# Global shadow lengthens

THE Gulf crisis (ed has cast a long shadow over the world economy. The rise in oil prices has upset hopes that the 1990s might witness a continuation of the economic growth of the past eight years in the industrialised world.

The likely consequences for non-oil developing nations, some of the newly industrialising countries of south-east Asia and the fledgling democracies of eastern Europe are much more grave.

Persistent uncertainty, symbolised by sharply lower bond and equity prices and volatile markets, has darkened the mood among economic commentators. There has been much talk of recession and "stagflation" – the mix of no growth and high inflation – that afflicted the world after the two oil crises of 1973 and 1979. The mood swings have obscured the fact that the industrial world should be in a better position to cope with the present oil crisis.

■ Iraq and Kuwait produced around 4.6m barrels a day of oil last year, or 7.3 per cent of global production. But other producers have increased their output and oil stocks are high.

■ Oil is now less important to the industrial world's economy because countries have, with varying degrees of success and commitment, substituted other energy sources.

■ Between 1973 and 1988, the 24 industrialised member countries of the Organisation for Economic Co-operation and Development (OECD) cut their energy use as a proportion of economic output by 25 per cent in volume terms. Their oil consumption as a percentage of output fell by 40 per cent.

■ Supply side measures, implemented over the past decade, have made the main industrial economies more adaptable. They have also entered the latest crisis with inflation much lower than at the time of the earlier oil price increases.

Moreover, oil was cheap before the crisis broke. By July the oil price was around $16 a barrel, having halved in value since 1980 in terms of its purchasing power of manufactured goods.

Even at recent peaks of around $40 a barrel, oil has been cheaper than in the second oil crisis when it reached $53 a barrel at today's prices. However, things could change in the event of war. The World Bank has suggested that oil could then cost $65 a barrel.

Computer simulations have suggested that the Gulf crisis should create only a minor shock for the world economy, even if the leading industrial countries maintain tight counter-inflationary monetary policies in spite of losing wealth to oil-producing nations.

The UK Treasury, for example, has calculated that each permanent $10 a barrel increase in the world oil price would retard growth of gross domestic product in the leading industrialised countries by no more than 0.5 percentage points a year on average over three years. A somewhat greater fall might be expected in world trade. World inflation might rise by 1 to 1.5 percentage points over the first year or so, falling to an increase of between 0.25 and 0.5 points by the third year.

But such projections could be too sanguine. They take no account of the effects of the crisis on business confidence. They also assume static conditions while evidence has been growing of an economic slowdown in the English-speaking and some other economies before the Iraqi invasion.

The effect on inflation is apparent. According to the OECD, energy prices rose by 2.8 per cent in its industrialised members in August. The Gulf crisis helped push up consumer prices in the OECD area by 0.8 per cent in the month against just 0.3 per cent in July. Annual OECD inflation accelerated to 6.6 per cent in August from 6 per cent in July.

Growth in Japan is expected to remain strong in spite of its heavy dependence on imported oil. Germany, facing the incorporation of eastern Germany into the Federal Republic, depends heavily on imported oil but is also growing strongly. So too are those economies closely tied to Germany such as the Netherlands, Belgium, Austria and Switzerland.

While the outlook in the industrial world is mixed, it is bleak in most developing countries. As a group developing countries are net oil exporters. But only 11 countries, those such as Mexico, Venezuela, Indonesia and Nigeria, will gain from higher prices. Oil demand in the developing world grew by 18 per cent between 1986-89: twice the 9 per cent growth of industrial countries. Developing nations now account for 28 per cent of total world oil consumption.

The World Bank has calculated that at least 60 oil-importing developing countries stand to suffer from higher oil prices.

It would also have serious effects on middle-income oil importers such as Brazil, Chile, Uruguay and Thailand. Eastern European countries, notably Romania, Bulgaria, Poland and Hungary, would be especially hard hit.

**Peter Norman**

## WORLD OIL INDUSTRY 3

**Lucy Kellaway** on moves for a common EC policy

# Lukewarm reception

THERE is no single market in energy. Brussels has experienced more difficulty in this area than in any other convincing the 12 EC countries to give up control over their own jealously-guarded national policies.

Mr Antonio Cardoso e Cunha, the EC's ambitious Portuguese energy commissioner, has spent the past few years trying to change that, but so far his success has been limited.

There is every economic justification for the 12 acting together in the field of energy. By having unfettered access to each other's gas and electricity grids considerable savings could be made. Indeed in electricity alone, such free access could save Ecu5bn a year by 2000, and cut electricity generation costs by more than 15 per cent.

The reasons for a common policy are not just economic. The EC has recently been increasing its dependence on imported oil – reversing a decline that has been in place since the mid-1970s – and the signs are that the trend is continuing.

Moreover, with energy demand increasing the implications for the environment are getting more and more difficult to ignore – and everyone realises that if action is to be effective it needs to be taken by everyone together.

But in spite of such reasoning, the EC has had to tread carefully, and move very slowly. It has taken until last month for member states to be convinced that there was any point in holding a joint meeting of energy and environment councils to discuss matters that cut across the two areas.

On the specific proposals, there is no sign that member states are in favour of a system of common carrier – which would form the basis of a single market. The utilities and many member governments are strongly opposed to any system in which owners of a grid could not refuse access, and would have to charge a fair rate to all comers. They argue that any such system would discourage further investment in energy transport, and would therefore damage rather than enhance the single market. Much more modest proposals to open up the networks to big utilities in neighbouring countries have taken more than a year to get past energy ministers.

A directive on gas transit was agreed last month, in spite of a good deal of kicking and screaming from the Netherlands and from Germany who feel that their de facto control of the gas market is under threat.

Other measures also designed to open the energy market have been watered down to get agreement from energy ministers. A directive passed earlier this year that would have opened up all oil-purchasing contracts to competitive tendering was successfully watered down by the British government. The argument was that the buying of North Sea supplies was already competitive, and that a layer of bureaucratic constraints would simply make the lives of the oil companies more difficult and would discourage future investment. It was another triumph for the industry and another defeat for the Brussels planners.

**There is every economic justification for the 12 acting together in the field of energy**

Part of the problem is that each member state is trying to protect its own interests, which are even more divergent than in other areas. France is trying to sell as much nuclear power as possible to the others. Germany is anxious to protect the interests of Ruhrgas, its powerful gas company, whereas the UK is tied in by its new legislation for privatising its energy industries, and differs from the others by being the only significant producer of oil. Everyone else, meanwhile, is resistant to any measures that would mean transferring so much power to Brussels.

The paucity of the powers at the centre was made glaringly obvious this year during the Gulf crisis. Brussels found itself with no implements at its disposal to make a well co-ordinated response to the crisis, and instead had to content itself with putting out well meaning, but ineffectual, statements to evil oil speculators that they were pushing up oil prices too far. Oil traders, not accustomed to watching the signal from Brussels, took no notice.

The first meeting of oil ministers at which the matter could be discussed took place three months after the start of the Gulf crisis; there had been some pressure to call an earlier meeting, but this was rejected because there was nothing concrete to talk about: the commission seemed to have no proposals to make.

This did nothing more than attract ridicule, and to encourage Brussels to think up ways of increasing its powers against a future crisis.

At the most recent meeting last month, such a new schedule was put forward – but it did not go down especially well. The commission argued that the energy market makes it essential that the 12 EC countries should be able to act together quickly to deal with any future crisis. The existing means at its disposal are not enough. Dating from the late 1960s and early 1970s, two directives set the ground rules for dealing with a crisis. They establish that all member states must keep 90 days of oil stocks at their disposal against a future crisis, but are vague about how the decision should be taken – and by whom – to run down the stocks. The second directive provides for a common approach to be taken to demand reductions, but once again, the mechanism is vague.

Instead, the commission is proposing that it should be given new powers to take the decision on emergency cuts in energy demand, and in oil stocks. This would put Brussels in the driving seat next time, and would seem to do so partly at the expense of the International energy Agency, which deals with such matters at present. If Brussels gets its way, it will have the full say over whether stocks – equal to 30 days consumption – should be run down and it would also be able to command member states to cut their demand by a fixed percentage.

The first response last month was a little lukewarm. The commission is going to have a lot more convincing to do. But then it is used to that.

A hope of even brighter days in the North Sea

# Set for a good time

THE North Sea oil and gas industry looks set to be one of the few important sectors of the UK economy which will buck the recession now threatening much of UK industry.

Mr John Wakeham, Energy Secretary, has forecast that energy production in the North Sea will surpass the 1985 record this year, while North Sea operators are optimistic that the good times which returned in 1990 will continue into next year.

Indeed, higher oil prices, if they were to be sustained, could herald even brighter days for the North Sea. The number of marginal fields worth developing would inevitably increase, even if the big oil companies believe it is premature to adjust their plans at present: "We aren't getting carried away with short-term oil prices," says Mr Chris Fay, head of exploration and production at Shell UK, the largest operator in the North Sea.

Even without a permanent ratcheting up of oil prices, prospects in the North Sea appear good. True, after the Nelson discovery, the likelihood of further discoveries of large fields now seems remote, but oil industry executives remain bullish.

"We see the North Sea as a mature development filled with a wealth of opportunities from smaller fields," explains Mr David Harding, BP's chief executive of exploration in Europe.

County NatWest WoodMac has identified 57 separate fields which may gain Government approval over the next three years. Its oil analysts expect £13.7bn in 1990 prices to be spent developing these fields, which are projected to have recoverable reserves of 6.3bn barrels – equivalent to about 58 per cent of remaining recoverable reserves from existing UK fields either onstream or under development. Just over half the fields are located in the central North Sea, which, in County NatWest's view, indicates "the extent to which development attention has switched to this area".

The n[illegible] of development in t[illegible]a is now well und[illegible]: a mature region, the emphasis is increasingly on smaller accumulations. Costs will inevitably escalate, not only in exploration (where BP, for example, reports a one in four success rate this year), but also in development.

"Most of the discoveries are small, so the challenge is to make them commercial," says BP's Mr Harding. The answer is to cut the capital spending per unit of output, with BP estimating that 20 per cent could be saved. One approach is to use existing large platforms to service ever more distant satellite fields. Shell's Mr Fay talks of extending the distance of satellite fields serviced from main platforms up to about 10 kilometres: "Certain mother platforms are being used beyond the operating life of their own fields," he says.

Other factors have also contributed to the upsurge in activity this year. The UK Government has been applying pressure on companies to drill old, under-explored acreage. US companies – facing diminished prospects at home – have rediscovered the attractions of the North Sea, with its favourable tax regime.

In addition, oil companies have been working overtime to meet the end-of-the year deadline set by the Department of Energy for installing emergency shutdown valves, a measure prompted by the Piper Alpha disaster in 1988.

Aberdeen house prices have remained firm, in sharp contrast to most of the rest of the country, while contractors and oil service companies are enjoying boom conditions. However, this in turn has posed problems for the oil companies, as some suppliers have reached the limits of capacity.

Shortages of skilled labour have posed particular problems, with the North Sea having to compete with large construction projects in the south of England

Some fabrication yards have learned from previous ups and downs in the North Sea not to over-expand their workforce. As Mr Fay explains: "The yards have been tending to gear their capacity to the human element. They have been working with a regular workforce, not building up their workforce for peaks."

But the supplying industry is not having it all its own way. Continental contractors are competing for a larger share of the business in the run-up to the completion of the single European market in 1992. BP's decision to place big orders with French and Spanish fabrication yards in June was one straw in the wind.

The reason was simple: the Continental yards undercut their UK competitors, but not so long ago buy-British pressures would have kept French and Spanish contractors out of the bidding.

Some North Sea operators accuse the unions of taking advantage of the buoyant conditions to launch the round of industrial action this summer, although the unions insist that their campaign has been sparked off by safety concerns. While the union action seems to have had little direct impact on output, it has delayed some safety programmes.

Indeed, the Government was forced to announce in September that it might allow some companies to postpone the installation of emergency shutdown valves beyond the end of the year.

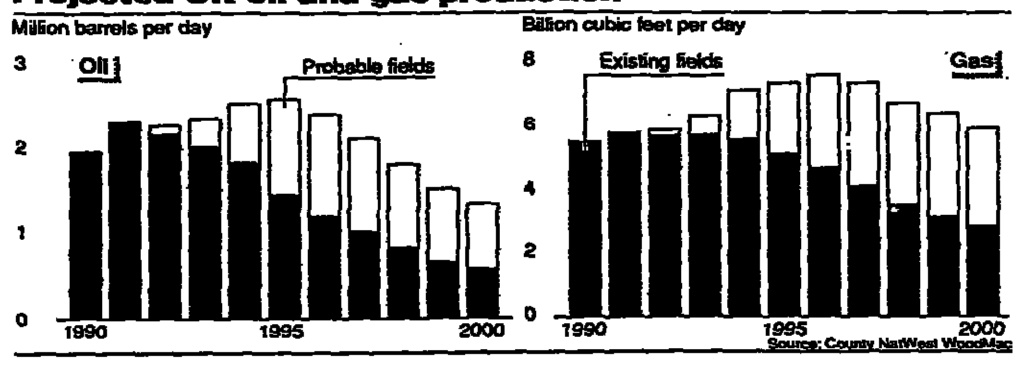
Further safety improvements are likely to follow the report of the official Cullen inquiry into the Piper Alpha disaster. John Brown, a leading offshore contractor, has already estimated that safety modifications required after Piper Alpha could cut the number of new economically-viable North Sea fields by 10 per cent.

However, it is difficult to disentangle safety expenditure which was specifically triggered by Piper Alpha from expenditure which the companies would have made anyway, particularly on the older platforms now being refurbished. "A large part of the money which some companies are attributing to Piper Alpha would have been spent in any case," says Shell's Mr Fay.

The growing maturity of the North Sea is also prompting a rationalisation of assets, as companies seek to offload minority stakes. In July, for example, LASMO, the independent British company, swapped acreage with Occidental Oil in a move which gave it a 58.85 per cent stake in a block containing the Birch, North Birch and Elm discoveries. In October, Chevron put up for sale about 15 per cent of its North Sea assets in fields where it was not an operator.

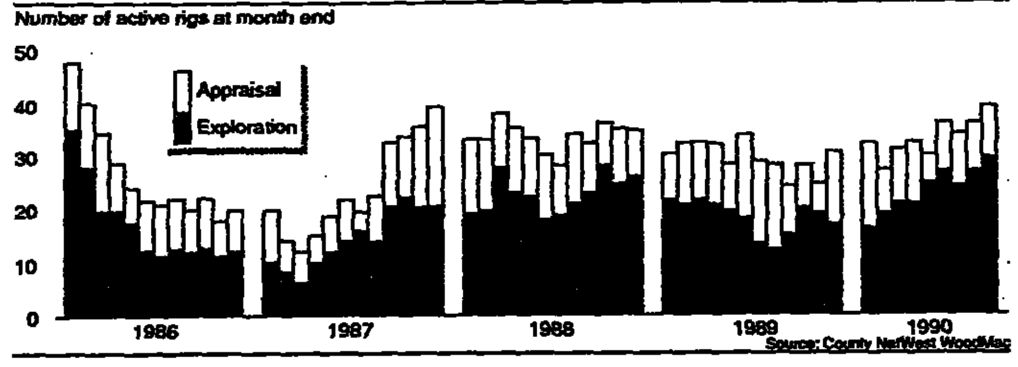
**David Thomas**

**Projected UK oil and gas production**



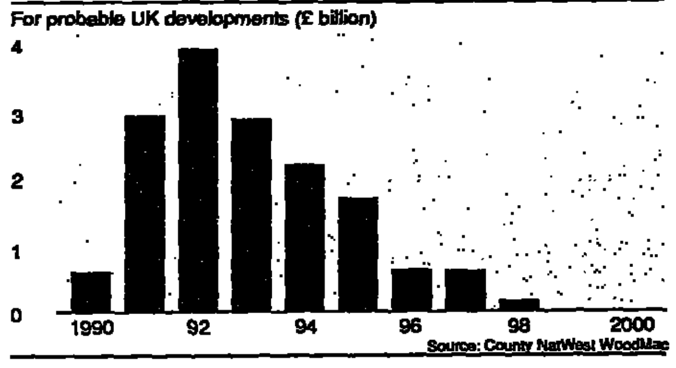

**UK drilling activity**

Number of active rigs at month end

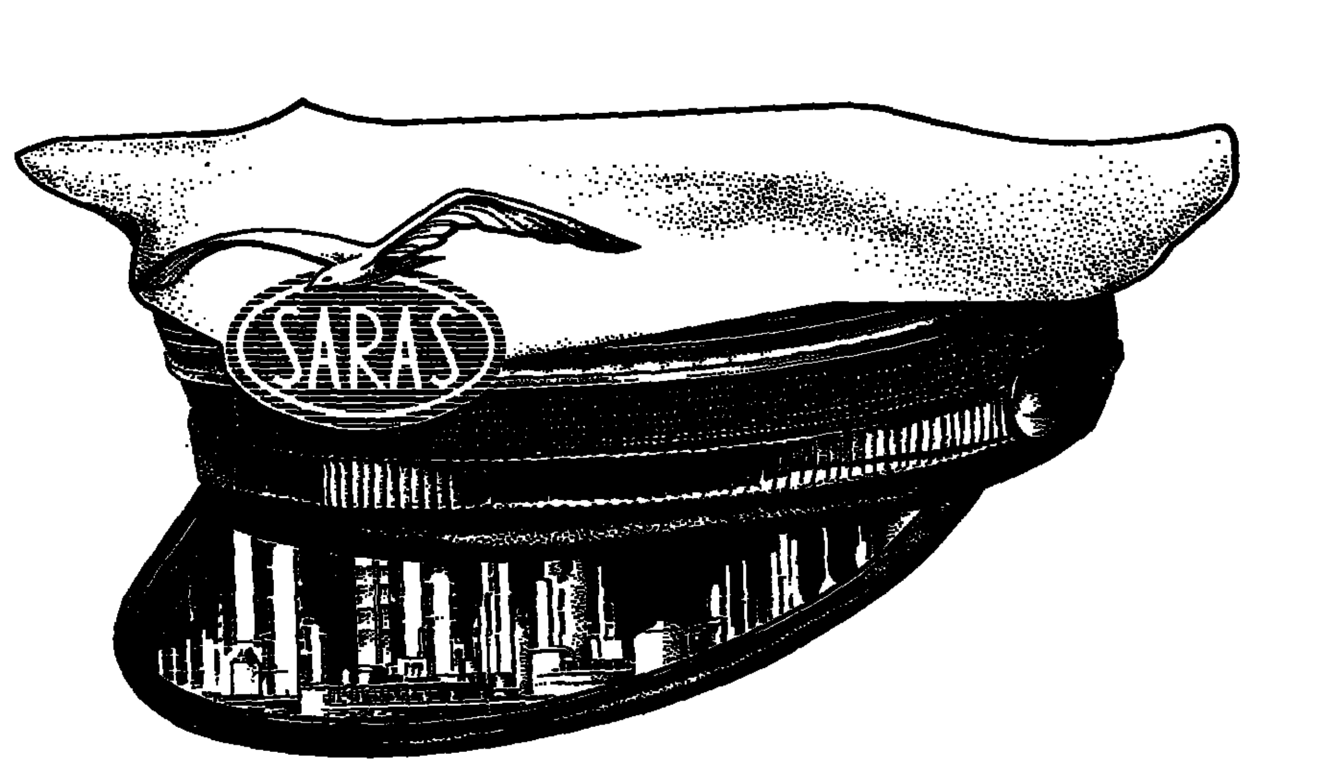



**Capital expenditure**

For probable UK developments (£ billion)





**William Dawkins** discusses France's two state-owned groups

# Shaping up for competition

THERE has always been a healthy sense of rivalry between Elf Aquitaine and Total, France's two state-controlled oil groups.

Like their competitors, they are temporarily riding high on the increase in oil prices sparked off by the Gulf Crisis, from which both of them will reap stock profits, even if they will account for them differently.

The competition between the pair has been embodied over the past 18 months by the appointment of new chairmen for both companies. They immediately locked themselves into an intense debate on how Elf, the world's ninth oil producer in terms of reserves, and Total, the world's 13th, would share out the spoils in a re-organisation of the French chemicals industry.

Mr Loïk Le Floch-Prigent, a loyal Socialist, took over at Elf in June last year; and Mr Serge Tchuruk, the politically-unattached engineer, took the helm at Total at the start of 1990. The proportion of state ownership is different – 54 per cent for Elf and 35 per cent for Total – but both chairmen swear they are free to manage with almost no interference from their government shareholder, and behave accordingly.

The pair, known as two of the strongest personalities in the French state sector, already know each other well, for Mr Tchuruk was Mr Le Floch-Prigent's number two at Rhône-Poulenc, the state-owned chemicals group, for several years until 1986. Mr Tchuruk then became chairman of Orkem, the state chemicals company which found itself at the centre of last year's reorganisation, the general aim of which was to help give a fragmented French chemicals industry the critical mass needed to compete on more equal terms against the world leaders.

Meanwhile, Mr Le Floch-Prigent, fresh from his retirement from Rhône-Poulenc, was busy drawing up the government report on which the reorganisation was based. After several months of hard bargaining, in which the Government stood on the sidelines while the oil barons negotiated between themselves, Orkem was split more or less down the middle. The speciality chemicals businesses – adhesives, paints and resin – went to Total, while Elf picked up its bulk chemicals, fertilisers,and plastics businesses to bolt on to its own chemicals subsidiary, Atochem.

The incident is revealing. While it has not exactly changed the face of either of France's big oil companies, it reveals how keen they both are to improve their activities downstream, into high-value added products – from unleaded petrol to pharmaceuticals – that offer a balance to the volatility of crude oil prices.

Certainly, Mr Le Floch Prigent has wasted no time in expanding Elf's presence in refining, chemicals and pharmaceuticals.

The $1.05bn takeover of Pennwalt, the US speciality chemicals producer in July last year, was the first shot in that direction, followed by a series of smaller acquisitions by Sanofi, Elf's pharmaceuticals subsidiary.

In the first half of this year, Elf drew 42 per cent of its FFr10.2bn six-monthly operating profits from chemicals and pharmaceuticals, a big shift from the structure a few years ago.

Of the remainder, 57 per cent comes from production with the rest from refining and distribution. "An oil company for how much longer?" asked the headline on one analyst's report.

Upstream, Elf has also been busy. Over the past year, it has bought acreage in Nigeria, taken over the exploration and production interests of BP France and acquired new acreage in the Norwegian sector of the North Sea.

In May, it became the the first Western oil company to strike an exploration and production deal in the Soviet Union, on land near the Caspian Sea.

Le Floch-Prigent (left): wasted no time in expanding Elf's presence in refining, chemicals and pharmaceuticals. Above: Total Oil's platforms A and B in the North Sea

Total has also changed shape, more slowly but perhaps more radically than its big sister. Over the past three years, it has moved from being almost entirely dependent on production and exploration to becoming France's leading oil refiner, responsible for 31 per cent of the country's refining capacity.

Last year, refining and distribution accounted for nearly half of Total's cash flow, as against 39 per cent for exploration and production. Chemicals and mining contributed the remaining 12.5 per cent, though this proportion will clearly rise this year as the first contribution from Orkem's speciality chemicals operations makes itself felt.

The new importance of refining and distribution in the make-up of Total's income reflects the improvement in European demand for refined products in recent years as well as the fruits of a restructuring programme, which has allowed Total's refineries significantly to improve their operating margins. Mr Tchuruk told a meeting of analysts recently that he does not plan to invest in new refining capacity so soon after Europe appeared to be suffering from a surplus, though he did not exclude a joint venture with another oil group.

One thing that both companies have in common is a larger exposure to the distribution business than they would like. In both cases, margins are suffering from the long-term price competition provided by hypermarket-owned discount filling stations, and in the short term from the Gulf crisis.

In spite of the fact that they have legal freedom to decide petrol prices, there is an informal understanding with the government which makes it impossible for them to pass on the full increase to motorists.

By the end of this year, Elf aims to have reduced the number of filling stations it owns and controls under franchise to 4,200, down from 6,500 five years ago. Total has closed 900 stations since 1985, so that it now has 3,900 in its domestic network, targeted to fall to 3,000 outlets by 1994. In line with other oil companies, they are both investing heavily to modernise the remaining outlets, as well as adding extra services such as grocery stores and restaurants.

In public, France's two state oil barons are far too discreet to criticise each other. Even so, Mr Tchuruk did let slip at a meeting of analysts early this year that nobody should assume that Elf would take over Total in any restructuring of the French oil industry – indeed, that it could be the other way round. No such thing is on the cards at the moment, but there is no doubt that Mr Le Floch-Prigent would vigorously contest the analysis of his former number two.

**Juliet Sychrava** examines the independent companies

# Back from the brink of death

IN 1985 Tony Craven Walker, one of the UK oil industry's best-known characters and then president of Charterhouse Petroleum, told the press that the UK independent oil sector was dying. Now managing director of Monument Oil & Gas, he has changed his mind.

"I was very concerned about Charterhouse at the time," says Mr Craven Walker. "We tried to merge with Saxon Petroleum, then Enterprise bid for Saxon and forced us into the arms of Petrofina, which took us over at the end of 1985. The oil price crashed two days later. Then I spent two years putting Monument together."

Monument is one of the success stories of the 1990s. Two and a half years ago it was a shell company capitalised at around £5m. Three acquisitions and several exploration successes later, it is one of the largest companies in the sector, capitalised at more than £200m with 43m barrels of oil reserves.

It is also a classic example of what happened to the independent oil sector during the 1980s.

Charterhouse was one of a plethora of small companies started up in the early and mid 70s, in the heady days of North Sea exploration. It was one of many that went under during the mid 80s, when a series of takeovers shook the sector: Britoil went to BP, Tricentrol to Arco, Acre Oil to British Gas, and Carless to Celt. Stock market valuations rose, and more rationalisation followed, as non-oil companies such as Thompson International and Pearson, in the words of one broker, "breathed a sigh of relief, took profits, and got out of the sector".

At the time, doomsters foretold the death of the independent sector. "There were two views at the time," says John Walmsley, financial director at Enterprise Oil, the sector's largest company. "One was that the North Sea was a province coming to the end of its exciting life, and the other was that the independents as a group would inexorably be absorbed into the majors."

Both predictions, the industry believes, have been proven wrong. The North Sea has turned out to be deeper and richer than expected, and the independent sector, phoenix-like, has regenerated itself.

Monument is only one of the second generation companies set up by old industry hands over the past two to three years: John Rate, formerly managing director of Tricentrol, launched Seafield Resources, Malcolm Butler set up Brabant Resources, recently listed on the USM, when his former company Industrial Scotland Energy was taken over by Texas Gas.

And although oil price uncertainty since the Gulf crisis has meant something of a lull in corporate activity in the sector, with buyers and sellers taking different views on the value of assets, the industry firmly believes that oil asset buying, selling and swapping, and the emergence and re-emergence of small companies, will never stop.

"I think the activity in broking assets is continuous," says David Boyd, chairman of the Association of British Independent Oil Exploration Companies, or Brindex. Mr Boyd, who is also managing director of Goal Petroleum, has seen the total capitalisation of Brindex member companies grow from under £100m when it was formed in 1974, to well over £6bn. "Look at any environment: you always have different creatures exploiting different possibilities, from the ant to the elephant." There is room, he says, for both.

The broking community, however, has often argued that there is no room for elephants. Independent oil companies, it has suggested, are by nature small, fast-growing, businesses, valued on their assets and their vulnerability to takeover. The real giants, integrated international majors such as Shell and BP, capitalised in tens of billions, are a different case, and can be valued on their ability to sustain dividend growth. But companies such as Enterprise and Lasmo, which fall in between, are anomalies, too large to double their size through an oil find like the small companies, and too small to provide the total security of the majors.

Enterprise, set up in 1984 and which, in its six-year life, has grown from under £400m to around £3bn, finds accusations that it has outgrown its strength mystifying.

Comparisons of this kind, suggests John Walmsley, are odious. "It's like the chap that goes hunting lions with the guide. They're in the jungle and he's about to take a photo, when the lion hears the shutter clicking and looks up. The man looks round at the guide, and sees he's putting on his trainers. "You can't outrun a lion in those," he says. "I don't have to outrun the lion," says the guide. "I just have to outrun you."

Enterprise, says Mr Walmsley, just has to do what it does well. "I don't think the UK is used to looking at independent oil companies as growth businesses, it's used to looking at them as punts. But we're growing at a very competitive rate, have no net debt, and are doubling our production profile over the next four years. Plus, we have a track record and a clear strategic plan."

Tony Craven Walker: he has changed his mind

Norman Davison-Kelly, corporate development director at Lasmo, is similarly untroubled by the idea that the company might be too big. "We think we can maintain a high degree of growth and activity. This is a huge industry. The free world consumes 25m barrels per day, and we produce around 100,000. That's a tiny percentage." Lasmo, which has operations in 16 countries worldwide, believes this diversified international portfolio means that although it is still a pure exploration and production company, it can offer more stability than its smaller rivals.

The smaller companies themselves have changed from the days when they were simply exciting stockmarket punts. They have, says Mr Walmsley, learned a number of lessons from their experiences in the mid 80s.

"Don't overstretch your capital base. As soon as you can, get cashflow – buy in a secure base of income – as long as you don't overpay. Don't underestimate how much equity you'll need – your initial investors will take profits when you make your first strike and you'll find it hard to fund a second. And, most of all, you need an independent source of cashflow and secure financing. Look at Lasmo, Clyde, Monument: all the companies that survived the 80s have done that – and they are not punts now, they are businesses."

Monument, says David Boyd, is a case in point. "Its success is due to sophisticated and technically competent management, plus backing from good institutions that were prepared to allow Nimex (the company set up to raise capital to establish Monument) to acquire high-risk acreage and then work on it without having to justify that to the City."

Whether the City has learned its lesson is more questionable. Tony Craven Walker, who has a reputation as a sharp operator when it comes to asset broking, thinks not.

"The City hasn't the foggiest idea how to value an oil company. "You can't use $23 per barrel when we're selling at $40 per barrel. In this business you are lost when you have a downturn in the City, because it's so sheepish." The key for the oil companies, he says, has been finding longer-term institutional shareholders to help them through difficult times.

Arbitraging the gap between City and industry valuations has been a critical factor in the growth by acquisition of the independent sector over the 80s. eighties. In the future, some brokers claim, exploration will become more critical.

"We are favouring companies like Lasmo that have a high quality and diversified acreage bank," says Philip Lambert of Kleinwort Benson's oil team. "It will be harder and harder for purely North Sea companies to grow, or achieve critical mass."

**Joseph Mann** looks at PDVSA, Venezuela's national oil company

# Giant spreads its wings

FOR most people, it may come as a surprise to learn that Venezuela's national oil company, PDVSA, ranks as one of the world's largest petroleum concerns.

The company, whose full name is Petroleos de Venezuela SA, began operations in 1976 after the Venezuelan government nationalised all assets of foreign oil companies.

From the outset, PDVSA was run by professionals and other experienced managers. Successive Venezuelan governments have generally avoided sticking their noses into the oil business and have allowed the company to be run professionally, to earn substantial profits, to invest wisely in domestic and overseas assets and to avoid problems that have typically affected NOCs, such as rampant featherbedding, excessive taxation and either an exaggerated dependence on – or rejection of – foreign technological assistance.

Governments in this South American republic have a record of poor management at other state-owned enterprises. But the country's politicians have been wise enough to give PDVSA – which provides the government with most of its tax revenues – an unusual degree of independence.

Since it began, PDVSA has found new oil reserves, developed a range of international clients, increased refining capacity and invested in overseas ventures that have given it a firm market share in the US and western Europe.

PDVSA possesses the largest proved reserves of crude oil in the western hemisphere, around 59bn barrels. It also has the world's largest deposits of heavy oil and bitumen.

With more than 46,000 employees, the company has crude oil production potential of 2.75m barrels a day and produces more than 2.2m b/d. PDVSA owns and operates six refineries at home, and has invested in refining and distribution companies in its most important markets.

Moreover, the company operates a refinery under lease in Corezal and owns substantial storage capacity throughout the Caribbean. It also is investing heavily in petro-chemicals, natural gas and coal.

One area that offers promise is a new fuel product called orimulsion, an emulsion of extra heavy crude, water and chemicals that PDVSA and British Petroleum are marketing to compete with coal for electric power generation.

Last year, PDVSA exported more than 1.6m b/d of crude oil and refined products, with about 66 per cent going to the US and 13 per cent to Europe.

Aside from being a large company, PDVSA is also quite profitable. Last year it had net earnings of $2.1bn on gross revenues of $13.7b. The company has earned net profits – and reinvested them – each year since it was founded.

Under Mr Andres Sosa Pie-

Continued on Page 5

IF CALIFORNIA represents the future, as most Californians assume, then the oil industry is in for interesting times. For the most environmentally-conscious state in the US has introduced new air quality laws which will have a profound effect on the industry's product and marketing strategies.

California is leading the US with anti-pollution laws that are tougher even than the US Clean Air Bill, itself widely seen as marking a watershed for Big Oil and other energy industries in North America. Outside the US, attention has focused on California's concept of "zero emission vehicles": 2 per cent of cars sold in California by 1998, and 10 per cent by 2003, must fall in this category, a requirement which will require the mass manufacture of electric cars.

But equally dramatic will be the impetus given to cleaner-burning fuels by the Californian legislation. All cars sold in the state by 2003 must have cut their emissions of hydrocarbons and other smog-forming chemicals to at most 30 per cent of the levels prevailing a decade earlier.

California is not alone in taking a greener look at vehicle emissions, even if it is clearly in the vanguard. The European Community has agreed standards for exhaust emissions which will require sophisticated, three-way autocatalysts on all new cars from the start of 1993 and on all new models from July 1992. EC rules for heavy commercial vehicles are also expected to be tightened, with tougher limitations on gaseous emissions and the introduction of limits on diesel particulates (soot).

Much of the brunt of these changes will, of course, fall on the auto industry. Ford, which has been working in the US for more than a decade on methanol-powered cars and a "flexible fuel vehicle", has warned that environmental pressures will determine "the size and shape of cars, what is in them, how they are made, where they are allowed to go and even who can own them".

Inevitably, however, the knock-on impact on the oil business will be substantial, as companies step up the search for a new generation of more

Alaskan disaster: brought down an environmental avalanche

ENVIRONMENTAL ISSUES

# Braced for the green assault

environmentally acceptable fuels. Indeed, 14 oil companies are already participating in the US with Ford, General Motors and Chrysler in a joint $15m research project into alternative fuels.

In one sense, these developments represent an opportunity for the industry, since significant commercial advantages await the oil companies which are nimblest in reacting to them. Atlantic Richfield, for example, has already introduced a "cleaner" petrol in southern California, called EC-Premium, which it claims cuts carbon monoxide emissions by 28 per cent, while emitting 21 per cent less smog-forming hydrocarbons than conventional unleaded petrol.

But the pressure for cleaner fuels will also push up costs substantially in refining operations. Take just one example, by no means the most important facing the industry. The UK Petroleum Industry Association recently analysed EC moves to control particulates from diesel engines by severely cutting sulphur content to 0.05 per cent maximum by 1995. This would require more than $3bn in spending at refineries throughout the EC, raising manufacturing costs by some $12-$18 a tonne, the association warned.

Yet the trend to cleaner products is just one of a triad of pressures forcing the environment to the top of the agenda in oil business boardrooms. The second is the increased scrutiny of the environmental record of the industry's own operations from wellhead to petrol pump.

No one is under any illusions about the single most important recent event in fostering the green assault on oil. The 11m-gallon oil spill by the Exxon Valdez off Alaska last year brought down an environmental avalanche on the oil industry. Costly measures were introduced in the US Congress to force improved design of oil tankers and to increase the liability of oil companies to meet clean-up costs. Industry lobbyists mounted a desperate campaign to persuade the US to ratify international conventions that limit the liability of tanker operators and oil companies to claims for pollution damage. Shell reacted to the impasse this year by suspending crude oil shipments to dozens of US ports.

Meanwhile, efforts by the industry to open no-go areas for exploration, such as the Alaskan wildlife reserve, were set back years. And all this came on top of measures to force oil companies to improve standards at US gasoline stations, which fed through to hefty charges against some companies' earnings.

Even companies prided themselves on their environmental record, such as Shell, have fallen foul of the stiffer laws. The Dutch Ministry of the Environment has been pressing a Fl 110m (£33m) bill on Shell to clean up a site at Gouderak, where the Anglo-Dutch multinational once manufactured pesticides. In February, the company was also fined £1m, the largest penalty ever levied in Britain for a pollution incident, after polluting the River Mersey with 157 tonnes of crude oil.

Oil will be among the industries most affected by the general trend to tougher pollution controls on business being proposed by many countries. In the UK, for instance, the oil industry has been active in warning of what it sees as shortcomings in the new pollution regime to be introduced from next year. Britain's oil companies fear that the new regime, known as integrated pollution control, could constrain their ability to respond flexibly to competitive pressures, could slow the pace of technological innovation and could threaten commercial confidentiality by forcing companies to make public details of sensitive processes.

Yet, if anything, the third type of environmental pressure – the new-found concern with global environmental questions such as the greenhouse effect – could have the most profound consequences of all. Governments seem set to begin negotiating a global climate treaty next year which might eventually require sharp cuts in the consumption of all fossil fuels. As Mr D.F. Rijkels, head of environment at Shell International Petroleum, told a conference in London last month: "any strategy adopted to mitigate possible climate change will be bound to have considerable impact on the core of the oil industry".

The remaining challenge facing the industry is to spot any waning of the environmental tide. Some industry insiders believe that the renewed awareness of US dependence on oil imports which has flowed from the Gulf crisis could provide the catalyst. They may be being optimistic.

**David Thomas**

Quentin Peel discusses prospects for the Soviet industry

# Coming in from the cold

AFTER decades of self-imposed isolation from the international community, the Soviet oil industry wants to come in from the cold.

For the international oil majors, the prospect of gaining access to the last great frontier of oil exploration and production in the world is both fascinating, and a little frightening. Everyone is jostling to get in, and yet hanging back for fear of being the first to fall.

The huge expanse of Siberia, from marshy wastes to permafrost, remains to be properly explored. Perhaps there will never be another western Siberia, where the huge oilfields of Tyumen produce more crude than Saudi Arabia. Yet those fields are still barely exploited, in spite of a madcap rate of production since they came on stream in the mid-1960s.

Exploration of eastern and northern Siberia is still ahead, along with the Soviet Far East, and the fringes of the Arctic Ocean.

Then there is the Caspian Sea and Kazakhstan, where new reserves almost certainly lie below those already discovered, but challenging the ingenuity and technology of the industry to exploit them.

Only a handful of the oil majors actually have full-time offices in Moscow – Agip, Elf, Shell and most recently BP are the exceptions – but all are scrambling to get a foothold on the ground, watching each other and battling the Soviet bureaucracy.

The question is, how will they come in? Will they be forced into artificial joint ventures, sharing technology with Soviet producers, or will they succeed in gaining outright concessions to new Soviet fields, on the basis of production-sharing agreements?

More immediately, perhaps, with whom do they do business? And can the Soviet oil industry digest a sudden influx of foreign capital in a hurry?

For the Soviet industry is in turmoil, technologically and administratively. Production is falling steadily from the peak years of 1987 and 1988, when a last fling of capital investment at all costs pushed the rate up to 12.5m barrels a day. This year it is expected to drop to 11.5m b/d, or back to the level of the 1970s. The most obvious reason is the depletion of resources, for all the easiest oil fields have been exploited first, without regard for the future, leaving ever-increasing capital investment needed to maintain output levels.

The Moscow-run oil industry, demanding ever higher output regardless of the cost during the 1960s and 1970s, failed to invest in the sort of social and physical infrastructure needed in western Siberia, according to Dr Vladimir Spielman, deputy director of the Tyumen Geology Institute.

The result has been environmental chaos, with hundreds of square miles of marshland and tundra laid waste by oil spills and contaminated water. That is compounded by miserable living conditions for the workers, forced to spend years in communal shacks or builders' caravans, in spite of enjoying wages up to 10 times the average for the rest of the country.

The problem now is that any future investor will have to put in the infrastructure which should have been paid for from the profits of the early years of oil bonanza.

The second crisis for the industry is the depletion of its technical base. Dr Eugene Khartukov, head of the team of world energy analysts in the Moscow scientific institutes, estimates that 60 per cent of oil production equipment is already obsolete, and 75 per cent of oil refining equipment. "Only 15 per cent of all our equipment would meet western standards," he says.

The industry desperately needs western capital and technology transfers to modernise itself, and prevent the continued environmental havoc being wreaked. The problem is in finding an acceptable framework for that investment to be attracted.

The third big obstacle to oil industry development is its domestic economics inside the Soviet Union. Instead of being profitable, the industry is actually heavily subsidised – the the tune of Rbs7bn ($12.7bn) last year, according to Dr Khartukov.

The reason is an absurdly low producer price of oil – Rbs23 per tonne in western Siberia, and an average Rbs25 per tonne for the whole country. As much as 75 to 80 per cent of the producer price is absorbed by direct production costs, without any allowance for overheads, according to Tyumen officials.

The oil producers are calling for an increase to Rbs120, and even at that level fear they cannot cover rapidly inflating costs: some equipment prices have trebled over the past 12 months.

The oil workers' trade union is calling for Rbs180.

Meanwhile, the Soviet government, terrified at the consequence of such a gigantic price rise for the rest of the Soviet economy, has promised Rbs65, but says back in Moscow that the price will be frozen. Confusion is paramount.

Then potential investors face a classic confusion of administration. There is no vertical integration in the industry. Exploration is carried out by the Ministry of Geology, while exploitation is done by the Ministry of Oil and Gas. If you want a joint venture to do both, to whom should you talk? (In addition, if you find gas, you have to work with Gasprom, the former Minister of Gas Production.)

**The prospect of crossing the last great frontier of exploration is fascinating**

Finally, the confusion is over who owns the resources. Every Soviet republic, including the giant Russian federation, has now declared that it owns its own natural resources. Yet none of them has officials who can talk about the practicalities of investment. That is still under the control of the all-union ministries.

On the other hand, the all-union ministries are paralysed with indecision because they are uncertain how long they will exist. They face the prospect of abolition before the end of the year.

The only certainty is down on the ground, although even there the upheaval is evident. In Tyumen, the 10 oil production associations have now gained considerable local autonomy, under a loose umbrella organisation, the Tyumen Oil and Gas Association, which is responsible for foreign relations.

The oil majors are looking for exploration and production deals they can understand. "Every oil company has an ideal of developing a full field, and preferably on its own, so you don't have to share technical facilities with the Soviets," according to one visiting oil man. "The trouble is they just want to sign joint ventures."

From the Soviet side, Western input is seen as bringing in technology for deep drilling, for exploiting those wells where most of the oil has been left behind (in Tyumen region, 5bn tonnes has been extracted so far, and 7bn tonnes left behind in the process). There are also very high sulphur-content fields, such as the huge Tengiz field in Kazakhstan, where Chevron is negotiating for a production agreement.

Apart from that, environmentally-clean technologies and energy-saving are two areas where the Soviets are actively looking for partners.

A key deal everyone is waiting for is the Chevron deal in Kazakhstan, which is being negotiated inside the so-called American Trade Consortium. The idea there is that the foreign currency earned by Chevron's oil would help finance consumer investments by other US corporations such as Johnson and Johnson, Eastman Kodak, and RJR Nabisco. They would produce desperately needed products such as pharmaceuticals, and foodstuffs, for roubles, and be guaranteed repatriation of profits through the oil production.

Another option would be the energy agreement being proposed by the European Community. That would provide an international legal framework for both oil companies and Soviet authorities, tied to the long-term energy supplies of western Europe.

Without something similar, no one expects a rush of investment, in spite of the underlying enthusiasm. "It will be 10 years before you really see oil companies operating here in a big way," the oil company executive says. "Then we might even see chains of retail petrol stations across Siberia. Why not?"

Continued from Page 4

tri, who took over as president of PDVSA earlier this year, the company is raising oil production toward a December target of 2.5m b/d to fill part of the world oil gap left by Iraq's invasion of Kuwait. The production increase, which will total around 500,000 b/d, should translate into new export receipts of $1.7bn this year, bringing total exports to $12.12bn.

This increase in crude output forms part of a five-year, $24bn investment programme that was announced before the Middle East crisis.

The programme aims at raising crude product potential to more than 3.5m b/d, increasing domestic refining capacity by 400,000 b/d, replacing the company's sea-going tanker fleet and boosting output of petrochemicals and coal.

Aside from running its present overseas investments, PDVSA is also looking at new business opportunities in Europe. The company is studying the purchase of three Czech refineries and is looking at refineries in what was East Germany. The Venezuelan company is already a partner with Veba Oel, in West German oil refining, petro-chemicals and distribution.

Quite clearly PDVSA is not problem-free. Due to government insistence on low domestic fuel prices PDVSA regularly loses hundreds of millions of dollars on home sales of motor petrol. A gallon of high octane motor gasoline retails around 26 US cents in Venezuela.

The present administration realises that domestic fuel prices must be increased, but has ordered only minor increments to avoid protests. PDVSA must find international investors to help finance part of its new investment scheme. But foreign companies are worried about issues such as high corporate taxes levied on oil and gas operations (PDVSA now pays taxes of more than 80 per cent), a costly new labour law and potential political opposition to international participation in Venezuela's petroleum sector.

The government hopes that a new, $3bn liquefied natural gas project will clear the way for future joint ventures in gas and oil.

This project, in which Exxon, Shell, Mitsubishi and PDVSA will be partners, calls for exporting 4.4m tonnes a year of Venezuelan LNG to the US by 1997.

The government is trying to shape the project in a way that will be acceptable to the foreign partners and to the Venezuelan Congress. The latter must prove all joint ventures in petroleum and gas under terms of the existing nationalisation law. (Ironically, Exxon and Shell – which may be the first equity partners in Venezuela's oil sector since the 1976 state takeover – were the largest companies affected by the nationalisation.)

As for taxes, PDVSA will propose special tax holidays or rebates for big projects in the petroleum sector where large private investments are involved.

Unfortunately, the money-strapped administration maintains PDVSA's own tax liabilities at a level the industry considers unacceptably high.

# WORLD STOCK MARKETS

## AUSTRIA

[illegible]

## BELGIUM/LUXEMBOURG

[illegible]

## DENMARK

[illegible]

## FINLAND

[illegible]

## FRANCE

[illegible]

## FRANCE (continued)

[illegible]

## GERMANY

[illegible]

## GERMANY (continued)

[illegible]

## ITALY

[illegible]

## ITALY (continued)

[illegible]

## NETHERLANDS

[illegible]

## NORWAY

[illegible]

## SPAIN

[illegible]

## SWEDEN

[illegible]

## SWITZERLAND

[illegible]

## SOUTH AFRICA

[illegible]

## JAPAN

[illegible]

## AUSTRALIA

[illegible]

## AUSTRALIA (continued)

[illegible]

## HONG KONG

[illegible]

## MALAYSIA

[illegible]

## SINGAPORE

[illegible]

NOTES – Prices on this page are as quoted on the individual exchanges and are last traded prices. (u) unavailable. d Dealings suspended. xd Ex dividend. xc Ex scrip issue. xr Ex rights. xa Ex all.

## CANADA

### TORONTO

*Closing prices November 9*

Quotations in cents unless marked $

[illegible]

†–No voting rights or restricted voting rights.

### MONTREAL

Closing prices November 9

[illegible]

Total Sales 3,640,815 shares.

## INDICES

### NEW YORK

| DOW JONES | Nov. 9 | Nov. 8 | Nov. 7 | Nov. 6 | 1990 HIGH | 1990 LOW | Since compilation HIGH | Since compilation LOW |
|---|---|---|---|---|---|---|---|---|
| ◆Industrials | 2488.61 | 2443.81 | 2440.84 | 2485.15 | 2999.75 (16/7) | 2365.10 (11/10) | 2999.75 (16/7/90) | 41.22 (2/7/32) |
| Home Bonds | 89.30 | 89.34 | 89.32 | 89.36 | 93.04 (3/1) | 88.44 (24/9) | — | — |
| Transport | 833.39 | 827.66 | 833.03 | 844.12 | 1212.77 (6/6) | 821.93 (17/10) | 1532.01 (5/9/89) | 12.32 (8/7/32) |
| Utilities | 210.32 | 209.13 | 209.07 | 213.09 | 236.23 (2/1) | 190.96 (24/8) | 236.23 (2/1/90) | 10.50 (8/4/32) |

◆Day's High 2500.74 (2468.81) Low 2438.61 (2415.84)

| STANDARD AND POOR'S | Nov. 9 | Nov. 8 | Nov. 7 | Nov. 6 | 1990 HIGH | 1990 LOW | Since compilation HIGH | Since compilation LOW |
|---|---|---|---|---|---|---|---|---|
| Composite ‡ | 313.74 | 307.61 | 306.01 | 311.62 | 368.95 (16/7) | 295.46 (11/10) | 368.95 (16/7/90) | 4.40 (1/6/32) |
| Industrials | 367.11 | 359.72 | 358.15 | 364.97 | 437.37 (16/7) | 346.86 (11/10) | 437.37 (16/7/90) | 3.62 (21/6/32) |
| Financial | 21.19 | 20.65 | 20.37 | 20.67 | 31.87 (3/1) | 18.80 (29/10) | 35.24 (9/10/89) | 8.64 (1/10/74) |
| NYSE Composite | 171.17 | 168.14 | 167.47 | 170.21 | 201.13 (16/7) | 162.20 (11/10) | 201.13 (16/7/90) | 4.46 (25/4/42) |
| Amex Mkt. Value | 291.03 | 289.07 | 289.74 | 292.15 | 382.45 (5/1) | 288.07 (30/10) | 397.03 (10/10/89) | 29.31 (9/12/72) |
| NASDAQ Composite | 341.95 | 336.37 | 336.80 | 340.53 | 469.60 (16/7) | 325.44 (16/10) | 485.73 (9/10/89) | 54.87 (31/10/72) |

| | Nov. 2 | Oct.26 | Oct.19 | year ago (approx.) |
|---|---|---|---|---|
| Dow Industrial Div. Yield | 4.08 | 4.17 | 4.03 | 3.93 |
| | Nov. 7 | Oct.31 | Oct.24 | year ago (approx.) |
| S & P Industrial div. yield | 3.55 | 3.54 | 3.42 | 2.97 |
| S & P Indl. P/E ratio | 14.48 | 14.43 | 14.86 | 14.25 |

### NEW YORK ACTIVE STOCKS

| Friday | Stocks traded | Closing price | Change on day |
|---|---|---|---|
| IBM | 2,272,800 | 110¼ | + 2¼ |
| Am T & T | 2,090,500 | 33 | - ⅛ |
| Citicorp | 2,010,800 | 12¼ | + ⅛ |
| SmKline Bchm | 1,906,100 | 47½ | + 1⅜ |
| Boeing | 1,766,500 | 44⅞ | + ⅞ |
| Gen Electric | 1,570,600 | 53¼ | + 2 |
| BankAmerica | 1,515,000 | 22¼ | + 1¼ |
| SW Pub Svc | 1,451,500 | 28¼ | + ⅜ |
| Philip Morris | 1,365,400 | 48¼ | + ¼ |
| Pepsico | 1,329,100 | 24¾ | + ½ |

### TRADING ACTIVITY

| † Volume (Millions) | Nov. 9 | Nov. 8 | Nov. 7 |
|---|---|---|---|
| New York | 146.113 | 155.570 | 150.813 |
| Amex | 10.678 | 9.465 | 11.096 |
| NASDAQ | (u) | 106.908 | 109.796 |
| Issues Traded | 1,987 | 1,984 | 2,009 |
| Rises | 1,113 | 828 | 452 |
| Falls | 434 | 649 | 1,117 |
| Unchanged | 440 | 507 | 440 |
| New Highs | 11 | 7 | 2 |
| New Lows | 64 | 90 | 81 |

### CANADA

| TORONTO | Nov. 8 | Nov. 7 | Nov. 6 | 1990 HIGH | 1990 LOW |
|---|---|---|---|---|---|
| Metals & Minerals | 2523.81 | 2486.60 | 2502.63 | 2543.60 | 3453.05 (4/1) | 2486.60 (8/11) |
| Composite | 3077.42 | 3060.55 | 3071.14 | 3094.67 | 4009.47 (3/1) | 3009.91 (16/10) |
| MONTREAL Portfolio | 1634.31 | 1621.36 | 1630.00 | 1645.50 | 2060.90 (3/1) | 1607.24 (16/10) |

Base values of all indices are 100 except NYSE All Common – 50; Standard and Poor's – 10; and Toronto Composite and Metals – 1000. Toronto indices based 1975 and Montreal Portfolio 4/1/83. † Excluding bonds. ‡ Industrial, plus Utilities, Financial and Transportation. (c) Closed. (u) Unavailable.

| | Nov. 9 | Nov. 8 | Nov. 7 | Nov. 6 | 1990 HIGH | 1990 LOW |
|---|---|---|---|---|---|---|
| **AUSTRALIA** | | | | | | |
| All Ordinaries (1/1/80) | 1328.8 | 1342.3 | 1335.0 | 1317.8 | 1713.7 (12/1) | 1291.2 (2/11) |
| All Mining (1/1/80) | 637.2 | 642.8 | 643.1 | 636.3 | 860.8 (5/1) | 627.2 (2/11) |
| **AUSTRIA** | | | | | | |
| Credit Aktien (30/12/84) | 437.42 | 439.66 | 448.73 | 456.73 | 703.29 (19/3) | 400.98 (25/9) |
| **BELGIUM** | | | | | | |
| Brussels SE (Cash Mkt) (1/1/80) | 5114.82 | 5134.44 | 5185.49 | 5197.85 | 6599.43 (12/1) | 4959.99 (25/9) |
| **DENMARK** | | | | | | |
| Copenhagen SE (3/1/83) | 338.22 | 338.95 | 340.28 | 341.30 | 388.29 (20/7) | 331.41 (27/9) |
| **FINLAND** | | | | | | |
| Unitas General (1975) | 411.0 | 408.4 | 409.2 | 408.7 | 677.3 (23/1) | 398.9 (24/10) |
| **FRANCE** | | | | | | |
| CAC General (31/12/82) | 419.81 | 417.99 | 426.75 | 429.56 | 564.62 (30/5) | 410.18 (26/9) |
| CAC 40 (31/12/87) | 1572.83 | 1569.86 | 1583.46 | 1613.49 | 2129.32 (20/4) | 1485.39 (25/9) |
| **GERMANY** | | | | | | |
| FAZ Aktien (31/12/58) | 603.48 | 594.28 | 598.51 | 611.44 | 832.32 (19/7) | 569.69 (28/9) |
| Commerzbank (1/12/53) | 1712.0 | 1684.2 | 1696.9 | 1735.4 | 2414.0 (3/4) | 1628.7 (28/9) |
| DAX (30/12/87) | 1381.49 | 1369.44 | 1371.15 | 1398.24 | 1968.55 (30/3) | 1334.89 (28/9) |
| **HONG KONG** | | | | | | |
| Hang Seng Bank (31/7/64) | 2932.92 | 2932.44 | 2955.19 | 2966.71 | 3559.89 (23/7) | 2738.24 (1/2) |
| **IRELAND** | | | | | | |
| ISEQ Overall (4/1/88) | 1224.51 | 1241.14 | 1264.60 | 1298.33 | 1893.10 (22/1) | 1207.47 (1/10) |
| **ITALY** | | | | | | |
| Banca Com. Ital. (1972) | 532.97 | 535.24 | 539.49 | 552.03 | 763.52 (14/6) | 532.97 (9/11) |
| **JAPAN** | | | | | | |
| Nikkei (16/5/49) | 22931.80 | 22969.81 | 23500.25 | 23965.75 | 38712.88 (4/1) | 20221.86 (1/10) |
| Tokyo SE (Topix) (4/1/68) | 1707.44 | 1721.91 | 1752.32 | 1781.62 | 2867.70 (4/1) | 1523.43 (1/10) |
| 2nd Section (4/1/68) | 3085.23 | 3136.13 | 3195.54 | 3226.86 | 4477.16 (16/7) | 2859.49 (1/10) |
| **MALAYSIA** | | | | | | |
| KLSE Composite (4/4/86) | 468.05 | 471.15 | 475.65 | 477.30 | 632.22 (1/8) | 459.08 (28/9) |
| **NETHERLANDS** | | | | | | |
| CBS Ttl.Rtn.Gen.(End 1983) | 226.1 | 225.6 | 227.8 | 229.6 | 271.9 (20/7) | 225.6 (8/11) |
| CBS All Shr (End 1983) | 165.9 | 165.6 | 167.2 | 168.5 | 206.3 (3/1) | 165.6 (8/11) |
| **NORWAY** | | | | | | |
| Oslo SE (Ind) (2/1/83) | 709.10 | 712.84 | 712.49 | 711.05 | 915.13 (2/8) | 701.67 (2/1) |
| **PHILIPPINES** | | | | | | |
| Manila Comp (2/1/85) | 595.01 | 596.35 | 608.37 | 612.49 | 1160.70 (21/3) | 514.80 (5/10) |
| **SINGAPORE** | | | | | | |
| SES All-Singapore (2/4/75) | 305.32 | 306.62 | 310.18 | 313.18 | 446.87 (16/7) | 301.45 (11/10) |
| **SOUTH AFRICA** | | | | | | |
| JSE Gold (28/9/78) | 1382.0♦ | 1371.0 | 1375.0 | 1366.0 | 2230.0 (16/1) | 1322.0 (20/6) |
| JSE Industrial (28/9/78) | 2710.0♦ | 2701.0 | 2698.0 | 2684.0 | 3211.0 (6/2) | 2640.0 (1/10) |
| **SOUTH KOREA**** | | | | | | |
| Korea Comp Ex. (4/1/80) | 703.81 | 707.24 | 720.96 | 702.93 | 928.82 (4/1) | 566.27 (17/9) |
| **SPAIN** | | | | | | |
| Madrid SE (30/12/85) | (u) | 226.42 | 228.53 | 229.54 | 309.74 (16/7) | 209.37 (28/9) |
| **SWEDEN** | | | | | | |
| Affarsvariden Gen. (1/2/37) | 850.2 | 855.2 | 865.0 | 883.1 | 1329.9 (5/7) | 850.2 (9/11) |
| **SWITZERLAND** | | | | | | |
| Swiss Bank Ind. (31/12/58) | 640.4 | 638.7 | 640.2 | 644.6 | 845.5 (13/7) | 613.4 (28/9) |
| SBC General (1/4/87) | 520.8 | 519.0 | 520.5 | 525.5 | 698.2 (13/7) | 512.4 (28/9) |
| **TAIWAN**** | | | | | | |
| Weighted Price (30/6/66) | 3472.53 | 3554.00 | 3689.87 | 3467.70 | 12495.34 (10/2) | 2560.47 (1/10) |
| **THAILAND** | | | | | | |
| Bangkok SET (30/4/75) | 662.55 | 661.19 | 662.25 | 661.89 | 1143.78 (25/7) | 613.95 (25/9) |
| **WORLD** | | | | | | |
| M.S. Capital Intl.(1/1/70) (§) | 451.1* | 450.5 | 457.2 | 463.2 | 571.0 (4/1) | 423.1 (28/9) |

**Saturday November 3: Taiwan Weighted Price: 3304.86 Korea Comp Ex. 710.96
♦ Subject to official recalculation *Calculated at 15.00 GMT.
Base values of all indices are 100 except: Brussels SE, ISEQ Overall and DAX – 1,000, JSE Gold – 255.7, JSE 26 Industrials – 264.3 and Australia All Ordinary and Mining – 500; (c) Closed. (u) Unavailable.

## TOKYO – Most Active Stocks

Friday 9 November 1990

| | Stocks Traded | Closing Prices | Change on day |
|---|---|---|---|
| Honshu Paper | 12.5m | 2,550 | +200 |
| Nippon Steel | 9.0m | 401 | -4 |
| N'matsu Cnstrn | 8.7m | 1,360 | -10 |
| Kyosan Elec | 5.4m | 1,380 | -20 |
| Tokyu Cnstrn | 4.2m | 1,110 | 0 |
| Hitachi | 4.1m | 1,080 | 0 |
| Nittoc Cnstrn | 3.9m | 1,790 | +30 |
| M'sui Shpbldg | 3.8m | 530 | -10 |
| Hazama-Gumi | 3.8m | 1,230 | +50 |
| S'tomo Metal | 3.6m | 441 | +3 |

# FT MANAGED FUNDS SERVICE

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# AUTHORISED UNIT TRUSTS

| Unit Name | Init Chrge | Canc. Price | Bid Price | Offer Price | Yield Gr's | City-line |
|---|---|---|---|---|---|---|
| **Abbey Unit Tst Mngrs (1000)H** | | | | | | |
| 80 Holdenhurst Rd, Bournemouth | | | | | | 0345 717373 |
| High Income | | | | | | |
| American Income | 6 | 38.71 | 38.71 | 41.40 | 6.62 | 40000 |
| Gilts & Fixed Int | 6 | 106.5 | 106.5 | 112.90 | 10.19 | 40001 |
| High Inc Equity | 6 | 112.2 | 115.5xd | 122.8 | 5.17 | 40002 |
| Worldwide Bond | 6 | 186.2 | 186.2xd | 197.4 | 7.60 | 40003 |
| Capital Growth | | | | | | |
| American Growth | 6 | 143.90 | 143.9 | 153.9 | 1.25 | 40004 |
| Asian Pacific | 6 | 93.44 | 93.44 | 99.93 | 0.12 | 40005 |
| Assets & Earnings | 6 | 137.1 | 137.1xd | 146.6 | 3.20 | 40006 |
| Capital Reserve Acc | 0 | 98.84 | 98.84 | 98.88 | 7.22 | 40007 |
| Capital Reserve Inc | 0 | 83.07 | 83.07 | 83.11 | 7.22 | 47580 |
| Comdty & Energy | 6 | 73.64 | 73.64 | 78.75 | 1.30 | 40008 |
| 1992 Enterprise | 6 | 52.67 | 52.67 | 56.33 | 3.46 | 46577 |
| Euro Capital Acc | 6 | 82.02 | 82.02 | 87.72 | 1.13 | 40009 |
| Euro Capital Inc | 6 | 78.75 | 78.75 | 84.22 | 1.13 | 47581 |
| Japan | 6 | 144.0 | 144.0xd | 154.0 | 0.25 | 40010 |
| Mastertrust | 6 | 83.17 | 83.17xd | 88.95 | 0.00 | 40011 |
| UK Growth Acc | 6 | 74.01 | 74.01 | 79.15 | 2.14 | 40012 |
| UK Growth Dist | 6 | 134.9 | 134.9xd | 144.2 | 2.85 | 40013 |
| US Emerging Cos | 6 | 87.20 | 87.20xd | 93.26 | 2.85 | 40014 |
| Income & Growth | 6 | 38.53 | 38.53xd | 41.20 | 0.00 | 40015 |
| Ethical | 6 | 247.5 | 247.5xd | 264.7 | 3.87 | 40016 |
| International | 6 | 39.89 | 40.98 | 43.59 | 2.29 | 40017 |
| Dividend & Growth | 6 | 49.76 | 50.44 | 53.65 | 0.95 | 46582 |
| Global Gwth & Sec | 6 | 99.70 | 40.77 | 43.97 | 5.19 | 47872 |
| | 6 | 46.41 | 46.69 | 49.60 | 2.01 | 44045 |
| **Abtrust Management Ltd (1200)H** | | | | | | |
| 10 Queens Terrace, Aberdeen AB9 1QJ | | | | | | 0800 833580 |
| Amer Inc & Growth | 5¼ | 24.18 | 24.18xd | 25.66 | 3.07 | 40019 |
| Cash | – | 50.00 | 50.00 | 50.00 | 14.00 | – |
| European | 5¼ | 67.58 | 67.58 | 71.77 | 0.00 | 40025 |
| European Income | 5¼ | 70.33 | 70.33 | 74.52 | 1.66 | 41377 |
| Exempt | 1 | 658.2 | 658.2xd | 676.7 | 3.45 | [illegible] |

| Unit Name | Init Chrge | Canc. Price | Bid Price | Offer Price | Yield Gr's | City-line |
|---|---|---|---|---|---|---|
| **Brown Shipley & Co Ltd—Contd.** | | | | | | |
| Int'l Growth ♦ | 6 | 22.20 | 22.20xd | 23.64 | 0.29 | 40198 |
| Monthly Income | 6 | 45.34 | 45.34 | 49.31 | 5.07 | 40512 |
| North American | 6 | 47.91 | 47.91 | 51.02 | 0.43 | 40199 |
| Orient ♦ | 6 | 88.08 | 88.08 | 93.81 | – | 40200 |
| Recovery | 6 | 33.60 | 33.60 | 35.78 | 1.73 | 40201 |
| Smaller Cos Acc | 6 | 173.4 | 173.4xd | 186.4 | – | 40202 |
| Smaller Cos Inc | 6 | 104.9 | 104.9xd | 112.7 | 3.13 | 40203 |
| **Brycourt Unit Tst Mgmt Ltd (1400)F** | | | | | | |
| Heskeuh Hse, Portman Sq, W1H 0JR | | | | | | 071-935 6382 |
| Income Growth | 1 | 157.9 | 157.9xd | 164.01 | 7.2 | 40204 |
| **Buckmaster Mangmt Co Ltd (1200)H** | | | | | | |
| 15 St Botolph Street, London EC3A 7JJ | | | | | | 071-247 4942 |
| Emerging Cos | 5¼ | 43.44 | 43.44 | 46.05 | 5.10 | 40205 |
| (Accum Units) | 5¼ | 45.60 | 45.60 | 48.34 | 5.10 | 45948 |
| Fellgowship Tst ♥ | 5¼ | 48.39 | 49.11 | 52.25 | 4.43 | 40206 |
| (Accum Units) ♥ | 5¼ | 51.40 | 52.14 | 55.50 | 4.43 | 40207 |
| General Inc | 5¼ | 234.7 | 234.7 | 248.8 | 4.60 | 40208 |
| (Accum Units) | 5¼ | 408.6 | 408.6 | 433.1 | 4.60 | 40209 |
| Income | 5¼ | 132.4 | 132.4 | 140.3 | 5.63 | 40210 |
| (Accum Units) | 5¼ | 274.8 | 274.8 | 291.3 | 5.63 | 40211 |
| International ♥ | 5¼ | 83.22 | 83.22 | 88.21 | 0.62 | 40212 |
| (Accum Units) ♥ | 5¼ | 115.0 | 115.0 | 121.9 | 0.62 | 40213 |
| Smaller Co's | 5¼ | 79.74 | 79.74 | 84.52 | 3.16 | 40214 |
| (Accum Units) | 5¼ | 89.34 | 89.34 | 94.70 | 3.16 | 40215 |
| Inv Portfolio ♥ | 3 | 43.09 | 43.09 | 44.60 | 3.80 | 46339 |
| (Accum Units) ♥ | 3 | 45.80 | 45.80 | 47.40 | 3.80 | 46898 |
| High Income Port ♥ | 3 | 39.22 | 39.22 | 40.59 | 6.15 | 46897 |
| **Burrage Unit Tst Mangmt Ltd (0905)F** | | | | | | |
| 117 Fenchurch St, London EC3M 5AL | | | | | | 071-480 7216 |
| Short Dated Gilts | 1¼ | 59.77 | 59.77 | 60.63 | 12.75 | 40216 |
| **CCF Foster Braithwaite UT Mngt (1100)F** | | | | | | |
| 1 White Hart Yard, London SE1 1NX | | | | | | 071-407 5966 |
| CCF Sel High Inc Eqty | 5¼ | 40.97 | 41.77 | 44.44 | 6.37 | 40096 |
| CCF Sel High Inc Eq Acc | 5¼ | 41.89 | 42.73 | 45.44 | 6.37 | 43806 |
| CCF Sel Int'l Gwth | 5¼ | 56.97 | 56.97xd | 59.97 | 0.00 | 40090 |
| CCF Sel Inv Tst | 5¼ | 41.27 | 42.93 | 45.68 | 2.62 | 40097 |
| CCF Sel Inv Tst Acc | 5¼ | 41.81 | 43.50 | 46.27 | 2.62 | 45805 |
| CCF Sel UK Sm Co's | 5¼ | 40.23 | 41.57 | 44.23 | 2.34 | 40098 |
| CCF Sel UK Smlr Cos Acc | 5¼ | 40.53 | 41.89 | 44.56 | 2.34 | 43807 |
| **CCL Unit Trusts Ltd (1400)F** | | | | | | |
| 74 Shepherds Bush Green, W12 8SD | | | | | | 081-740 7070 |

## Guide to pricing of Authorised Unit Trusts

Compiled with the assistance of Lautro §§

**INITIAL CHARGE:** Charge made on sale of units. Used to defray marketing and administrative costs, including commission paid to intermediaries. This charge is included in the price of units.

**OFFER PRICE:** Also called issue price. The price at which units are bought by investors.

**BID PRICE:** Also called redemption price. The price at which units are sold back by investors.

**CANCELLATION PRICE:** The minimum redemption price. The maximum spread between the offer and bid prices is determined by a formula laid down by the government. In practice, most unit trust managers quote a much narrower spread. As a result, the bid price is often set above the cancellation price. However, the bid price might be moved to the cancellation price by the managers at any time, usually in circumstances in which there is a large excess of sellers of units over buyers.

**TIME:** The time shown alongside the fund manager's name is the time of the unit trust's valuation point unless another time is indicated by the symbol alongside the individual unit trust name. The symbols are as follows: (♥) - 0001 to 1100 hours; (♦) - 1101 to 1400 hours; (♠) - 1401 to 1700 hours; (♣) - 1701 to midnight. Daily dealing prices are set on the basis of the valuation point; a short period of time may elapse before prices become available.

**HISTORIC PRICING:** The letter H denotes that the managers will normally deal on the price set on the most recent valuation. The prices shown are the latest available before publication and may not be the current dealing levels because of an intervening portfolio revaluation or a switch to a forward pricing basis. The managers must deal at a forward price on request, and may move to forward pricing at any time.

**FORWARD PRICING:** The letter F denotes that the managers deal at the price to be set on the next valuation. Investors can be given no definite price in advance of the purchase or sale being carried out. The prices appearing in the newspaper are the most recent provided by the managers.

**SCHEME PARTICULARS AND REPORTS:** The most recent report and scheme particulars can be obtained free of charge from fund managers.

Other explanatory notes are contained in the last column of the FT Managed Funds Service.

§§ Life Assurance and Unit Trust Regulatory Organisation,
Centre Point,
103 New Oxford Street, London WC1A 1QH
Tel: 071 – 379 – 0444.

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| Unit Name | Init Chrge | Canc. Price | Bid Price | Offer Price | Yield Gr's | City-line |
|---|---|---|---|---|---|---|
| **Target Trust Mngrs Ltd (1600)F** | | | | | | |
| Target Hse, Gatehouse Rd, Aylesbury, Bucks. | | | | | | |
| Admin 0296 394000 Dealing: 0296 312156 | | | | | | |
| American Eagle | 5 | 55.92 | 55.92 | 59.78 | 1.29 | 41482 |
| Australia | 5 | 5.292 | 5.292 | 5.664 | 4.71 | 41483 |
| Equity | 5 | 136.7 | 136.7 | 146.8 | 5.24 | 41486 |
| Euro Spec Sits | 5 | 95.65 | 95.65 | 103.0 | 0.67 | 41487 |
| Financial | 5 | 24.02 | 24.02 | 25.86 | 5.77 | 41488 |
| Global Opps Inc | 5 | 55.61 | 55.61xd | 59.76 | 0.00 | 41489 |
| Global Opps Acc | 5 | 56.81 | 56.81 | 61.06 | 0.00 | 41490 |
| Gold & Gen Inc | 5 | 34.68 | 34.68xd | 37.30 | 1.07 | 41491 |
| Gold & Gen Acc | 5 | 64.83 | 64.83 | 69.74 | 1.07 | 41492 |
| Income | 5 | 85.43 | 85.43 | 91.94 | 6.96 | 41493 |
| Japan & General | 5 | 106.8 | 106.8 | 114.9 | 0.00 | 41494 |
| Preference Share | 5 | 17.29 | 17.29xd | 18.59 | 14.27 | 41497 |
| UK Capital | 5 | 74.97 | 74.97 | 80.57 | 4.34 | 41500 |
| World Income | 5 | 51.56 | 51.56xd | 55.40 | 6.38 | 41501 |
| Worldwide Capital | 5 | 141.8 | 141.8 | 152.6 | 3.58 | 41502 |
| **Templeton Unit Trust Managers Ltd (1200)F** | | | | | | |
| Atholl Crescent, Edinburgh EH3 8HA 031 228 3932 | | | | | | |
| Global Growth Acc | 6 | 88.43 | 89.10 | 95.30 | 3.83 | 46671 |
| Global Growth Inc | 6 | 84.96 | 85.61 | 91.56 | 3.83 | 46672 |
| Global Balanced Acc | 6 | 89.62 | 90.04 | 96.30 | 5.04 | 46669 |
| Global Balanced Inc | 6 | 83.49 | 83.88 | 89.71 | 5.04 | 46670 |
| Value Tst Acc | 6½ | 65.71 | 66.74 | 71.38 | 4.85 | 42642 |
| Value Tst Inc | 6½ | 64.10 | 65.08 | 69.60 | 4.85 | 46990 |
| Intl Pen & Ch Ues Inc ψ | 2 | 84.90 | 85.45 | 89.71 | 4.07 | 46489 |
| Intl Pen & Ch Ues Acc ψ | 2 | 81.93 | 82.45 | 86.57 | 4.07 | 41595 |
| **Thornhill Unit Trust Managers Ltd (1200)F** | | | | | | |
| 28 St John's Sq, London EC1M 4AE 071-251 6767 | | | | | | |
| Capital | 5 | 44.68 | 45.01 | 47.88 | – | 47874 |
| Overseas | 5 | 39.17 | 39.31 | 41.81 | – | 47776 |
| **Thornton Unit Managers Ltd (1600)F** | | | | | | |
| 33 Cavendish Sq., London W1M 0DH 071-493 7262 | | | | | | |
| Dealing 071-493 8545 | | | | | | |
| American Opps | 5 | 39.22 | 39.22 | 41.83 | 0.27 | 41506 |
| (Accum Units) | 5 | 40.37 | 40.37 | 43.05 | 0.27 | 41507 |
| Cash | 0 | 50.93 | 50.93 | 50.93 | 14.00 | 45247 |
| Accum Units | 0 | 50.93 | 50.93 | 50.93 | 14.00 | 45248 |
| European Opps ‡ | 5 | 56.15 | 56.15 | 59.78 | 0.00 | 41508 |

| | Bid Price | Offer Price | Yield Gross | City-line |
|---|---|---|---|---|
| **Murray Johnstone UT Mngmt** | | | | |
| Murray Exempt Funds | | | | |
| Amer Expt Nov 7 | 36.8 | 38.2 | 2.84 | 41064 |
| Euro Expt Nov 7 | 47.5 | 49.8 | 2.58 | 41065 |
| Fixed Int Ex Nov 7 | 44.0 | 45.1 | 10.56 | 46594 |
| Japan Expt Nov 7 | 40.5 | 42.1 | 0.89 | 41066 |
| Managed Ex Nov 8 | 37.2 | 38.6xd | 5.57 | 41067 |
| SE Asia Expt Nov 7 | 53.8 | 56.4xd | 4.83 | 41068 |
| Sm Cos Expt Nov 7 | 28.3 | 29.7xd | 5.14 | 41069 |
| UK Eqty Ex Nov 7 | 35.7 | 37.4 | 5.39 | 41070 |
| **Phillips & Drew Fund Management Ltd** | | | | |
| Small Co's Nov 6 | 589.8 | 632.3xd | 5.89 | 41138 |
| Do Accum | 656.0 | 703.2 | 5.89 | 41139 |
| Int Expt Nov 7 | 140.7 | 142.8xd | 3.80 | 41140 |
| UK Index Nov 6 | 960.6 | 982.0 | 6.06 | 46945 |
| Do Accum | 1016 | 1037 | 6.06 | 46946 |
| Convertible Nov 2 | 76.45 | 79.05xd | 10.19 | 46938 |
| World ex UK Index Nov 5 | 645.5 | 654.0 | 2.28 | 47887 |
| Do Accum | 645.5 | 654.0 | 2.28 | 47888 |
| Japan Index Nov 5 | 540.8 | 548.4 | 0.53 | 47881 |
| Do Accum | 541.8 | 549.3 | 0.53 | 47882 |
| USA Index Nov 5 | 722.9 | 727.4 | 3.85 | 47885 |
| Do Accum | 733.1 | 737.5 | 3.85 | 47886 |
| Europe ex UK Index Nov 5 | 787.0 | 806.4 | 3.00 | 47879 |
| Do Accum | 799.2 | 818.8 | 3.00 | 47880 |
| Pacific ex Jap Index Nov 5 | 706.3 | 727.3 | 5.51 | 47883 |
| Do Accum | 719.8 | 740.9 | 5.51 | 47884 |
| Managed Exempt Nov 11 | 87.72 | 89.32 | 5.58 | 40338 |
| American Exempt Nov 7 | 94.41 | 95.97 | 4.65 | 40574 |
| European Exempt Nov 7 | 99.09 | 100.4 | 4.43 | 40628 |
| Japan Exempt Nov 7 | 102.7 | 103.9 | 0.84 | 40635 |
| Pacific Basin Nov 7 | 95.09 | 97.56 | 4.46 | 40636 |
| **NM Rothschild Asset Management Ltd** | | | | |
| NC Managed | 50.9 | 54.2xd | 4.37 | 40399 |
| NC Property | 174.3 | 191.2 | – | 41205 |
| **J. Rothschild Fund Managers Ltd** | | | | |
| Intl Exempt Accum | 118.3 | 119.2xd | 4.21 | 44085 |
| **Stewart Ivory & Co Ltd** | | | | |
| Sales PPP Oct 12 | 224.9 | 236.8 | – | 41422 |

## INSURANCES

## OTHER UK UNIT TRUSTS

Continued on next page

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National Provident Institution

Norwich Union Asset Management Ltd

Norwich Union Life Insurance Soc.

Pearl Assurance (Unit Funds) Ltd

Pegasus Assurance Ltd

Pioneer Mutual Insurance Co Ltd

Premium Life Assurance Co Ltd

Professional Life Assurance Co Ltd

Prolific Life & Pensions Ltd

Property Equity & Life Ass. Co

Property Life Assurance Co Ltd

Providence Capital Life Assc. Co Ltd

Providence Capital Life Assc. Co Ltd – Contd.

Provident Life Assoc Ltd

Provident Mutual Life Assc. Assn.

Prudential Assurance Co

Prudential Holborn Life Ltd

Prudential Holborn Pensions Ltd

Prudential Pensions Limited

Refuge Assurance

Regency Life Assurance Co Ltd

Reliance Mutual

Royal Heritage Life Assurance Ltd

Royal Heritage Life Assurance Ltd – Contd.

Royal Life Insurance Ltd

Royal Liver Assurance

Save & Prosper Group

Scottish Amicable

Scottish Equitable Life Assce. Soc.

Scottish Life Investments

Scottish Mutual Assurance Society

Scottish Mutual Investments

Scottish Provident Institution

Scottish Widows' Group

Shield Assurance Ltd

Skandia Life Assurance Co Ltd

Skandia Life Assurance Co Ltd – Contd.

Standard Life Assurance Company

Sun Alliance Group

Sun Alliance Group – Contd.

Sun Life of Canada (UK) Ltd

Sun Life Unit Assurance Ltd

Swiss Life (UK) PLC

TSB Life Ltd

Target Life Assurance Co Ltd

Teachers' Assurance Company Ltd

Templeton Life Assurance Limited

Tunbridge Wells Equitable

Wesleyan Assurance Society

Windsor Life Assur Co Ltd

Woolwich Life Assurance Co Ltd

Zurich Life Assurance Co Ltd

## OFFSHORE INSURANCES

Albany International Assurance Ltd

CMI Insurance Co Ltd

Eagle Star Intl Financial Services

Equity & Law Intl Life Assce Co Ltd

Eurolife Assurance Group

Fiscal International Ltd

Hansard International Ltd

Isle of Man Assurance Ltd

NEL Britannia International Ltd

NM Life Assurance Intl Ltd

Premium Life International Ltd

Providence Capital International Ltd

Royal Life Intl. Ltd

Royal Skandia Life Assurance Ltd

Sun Alliance International Life

Target International Group

## MANAGEMENT SERVICES

David M. Aaron (Personal Fin. Plnrs.) Ltd

The Analysis Group PLC

Bryan Wallis & Partners Ltd

Cameron Law & Company Ltd

James Campbell & Son Financial Services

Chase de Vere PLC

Drummond Moore PLC

Edinburgh Money Management Ltd

Fairmount Gina Rolls Ltd

Gartmore Fund Managers Ltd

Harrington Financial Services (Pty) Ltd

J.P.S. Lamont plc

Jefferies Fry Financial Services Ltd

Knight Williams & Company Ltd

Macartney & Davis F.S. Ltd

Northam Sloss & Partners

PBK Fund Management Ltd

Pendleton May Financial Services Ltd

Petley & Co PLC

Roxborough Financial Management Ltd

Rutland Inv Mkg & Inv Grp ("RIMIG")

Sharp (Albert E) & Co.

Siltain Fund Managers Limited

South Yorks Investment Management

Tattersall Investment Mngt. Ltd

Towry Law & Co

J. D. Ward Financial Services Ltd
9 Kingsway, London, WC2 B6XF. 01-836 4321

| | Bid Price | Offer Price | Yield Gross | City-line |
|---|---|---|---|---|
| Target Mngd Bond | 182.3 | 191.9 | – | 44591 |
| Target Mngd Pension | 110.9 | 116.8 | – | 44592 |
| Albany Life Acc | 163.4 | 171.9 | – | 41721 |
| Albany Pens Acc | 201.3 | 211.9 | – | 41722 |

# OFFSHORE AND OVERSEAS

## BERMUDA (SIB RECOGNISED)

Orion Fund Limited
6 Front St., Hamilton, HM11, Bermuda 809 295 4000

| Unit Name | Init Chrge | Canc. Price | Bid Price | Offer Price | Yield Gr's | City-line |
|---|---|---|---|---|---|---|
| Orion | | $– | 9.8907 | | | 40409 |

## CANADA (SIB RECOGNISED)

Ivory & Sime Pembroke Inc
UK Agent: Ivory & Sime Plc. One Charlotte Square, Edinburgh EH2 4DZ 031 225 1357

| | | | | | |
|---|---|---|---|---|---|
| CBC Nth America Inc* | C$– | 2.44 | | | 46768 |
| Approx Stlg Equiv | £– | 1.06 | | | 47933 |

*Dealing Thursdays–Forward. Redemption Fee 1%

## GUERNSEY (SIB RECOGNISED)

Adams & Nevile Fd Mngmt (Guernsey) Ltd
PO Box 255 St Peter Port Guernsey CI 0481 710651

| | | | | | |
|---|---|---|---|---|---|
| WorldInvest Bond Fund Inc | | $– | 1.27 | 1.33 | 44615 |
| WorldInvest Cap Fd Acc | | $– | 1.30 | 1.40 | 44616 |

BBV–Hambros Asset Mngmt (Guernsey) Ltd
PO Box 255, St Peter Port, Guernsey CI 0481 710651

| | | | | | |
|---|---|---|---|---|---|
| Bilbao-Vizcaya Euro | 3 | [illegible] | 10.10 | 10.53 | 47592 |

Grofund Invest Managers (Guernsey) Ltd
PO Box 255, St Peter Port, Guernsey CI 0481 710651

Grofund International Ltd

| | | | | | | |
|---|---|---|---|---|---|---|
| Intl Int Equity Mgd | 5 | 0.7046 | 0.7045 | 0.7560 | | 47638 |
| Int Equity Mngd | 5 | 0.7011 | 0.7011 | 0.7522 | | 47637 |
| Str Cash | 5 | 1$– | – | 1.000 | | 47635 |
| £ Int Equity Mgd | 5 | £1.241 | 1.241 | 1.335 | | 45154 |
| £ Intl Bond | 5 | £– | – | 1.000 | | 47634 |
| £ Cash | 5 | £1.042 | 1.042 | 1.094 | | 47636 |
| £ Intl Mngd H. | 5 | £– | – | 1.000 | | 47639 |

Guinness Flight Fd Mngrs (Guernsey) Ltd
PO Box 250, St Peter Port, Guernsey 0481 712176

Hambros Fd Mgrs (CI) Ltd

Leopold Joseph Fund Mngrs (Guernsey) Ltd

Kleinwort Benson Intl Fd Mngrs Ltd

Lazard Fund Mangrs (Channel Islands) Ltd

Lion World Fixed Income Fund

Lloyds Intl Money Market Fund Ltd

M & G (Guernsey) Ltd

Prolific International Mngmt Ltd

Rothschild Asset Management (CI) Ltd

Royal Bank of Canada Funds

Schroder Mngmt Services (Guernsey) Ltd

## GUERNSEY (REGULATED)(**)

Adams & Nevile Fund Mngt (Guernsey) Ltd

Arab Bank Fund Managers (Guernsey) Ltd

Barings Intl Fund Managers (Guernsey) Ltd

# FT MANAGED FUNDS SERVICE

● Current Unit Trust Prices are available on FT Cityline. To obtain your free Unit Trust Code Booklet ring the FT Cityline help desk on 071-925-2128

| | Bid Price | Offer Price | Yield Gross | City-line |
|---|---|---|---|---|
| **Dantrust Management (Guernsey) Ltd** | | | | |
| Dantrust Limited | DG115.6 | 115 8 | – | 44873 |
| **Fipart-Conseil Fund Mngrs (Guernsey) Ltd** | | | | |
| Hauteville G & B Fd | SFr7 82 | 7 90 | 2.06 | 46845 |
| **John Govett Mngmnt International Ltd** | | | | |
| Govett High Inc Gilt | £0 3500 | 0.3728 | 13.14 | 45140 |
| Govett Far East Inv | $0 876 | 0.936 | – | 45141 |
| Energy & Resources | $0 669 | 0 715 | – | 45142 |
| **Hambros Fund Managers (CI) Ltd** | | | | |
| Japanese OTC | 99 1693 | 9 7528 | – | 43785 |
| **Havelet Throgmorton Mngmt Ltd** | | | | |
| Intl Inv-Stlg High Inc | £9 974 | 10 528 | 10.09 | 47649 |
| Intl Inv-Intl High Inc | $48 988 | 51.572 | 5 54 | 47648 |
| **Henderson Admin. (Guernsey)** | | | | |
| Prov Ins Prfolio | £0 908 | – | – | 45225 |
| Balanced Grth $ Prtflo | $1 789 | 1.927 | – | 45226 |
| Balanced Grth £ Prtflo | £1.025 | 1.101 | – | 45227 |
| Select Mkts $ Prtflo | $1 816 | 1 963 | – | 45228 |
| Inc & Grth $ Prtflo | $1 671 | 1 768 | – | 45229 |
| High Income £ Prtflo | £0 601 | 0 631 | – | 45230 |
| **Hill Samuel Fd. Mngrs. (Guernsey) Ltd** | | | | |
| Guernsey Tst | 62.70 | 67.05 | 2.99 | 45254 |
| **Kleinwort Benson Intl Fd Mngrs Ltd** | | | | |
| KB Int Ac Bd Acc | £8.608 | 9 066 | – | 45356 |
| KB Japan Fund | | $221 62 | – | 45357 |
| KB Sterling Asset | £29 37 | 29.37 | – | 45358 |
| *Offer price inclusive of maximum preliminary charge | | | | |
| **Kleinwort Benson Islamic Fd Mgmt Ltd** | | | | |
| Islamic Fund | $5.75 | 6 15 | 0 52 | 45366 |
| **Lazard Fund Managers (CI) Ltd** | | | | |
| Lazard Cap Grth Bond | $2835.67 | 2996 41 | 8 | 45385 |
| Lazard Cur Acc Fd £ | £18.69 | 18 70 | 13.6 | 45367 |
| Lazard Cur Acc Fd US$ | $14 64 | 14.65 | 7 2 | 45368 |
| Lazard Cur Acc Fd Y | Y3,810 | 3,820 | 6 75 | 45369 |
| Lazard Cur Acc Fd DM | DM51.32 | 51.33 | 7 2 | 45370 |
| Lazard Cur Acc Fd SF | SFr37 04 | 37 05 | 6 7 | 45371 |
| Lazard Cur Acc Fd FF | FFr158 03 | 158 04 | 8 7 | 45372 |
| Lazard Cur Acc Fd Man | $15 62 | 16 41 | – | 45375 |

| Unit Name | Init Charge | Canc. Price | Bid Price | Offer Price | Yield Gr's | City-line |
|---|---|---|---|---|---|---|
| **Capital House Fund Mgrs – Contd.** | | | | | | |
| **Bonds** | | | | | | |
| Sterling Bond | 5 | £1.380 | 1.380 | 1.455 | – | 44816 |
| International Bond | 5 | $1.825 | 1.825 | 1 924 | – | 44817 |
| **Currencies** | | | | | | |
| £ Sterling | 0 | £24 72 | | 24.72 | 14 10 | 44818 |
| US$ | 0 | $18.88 | | 18 88 | 6 53 | 44819 |
| Japanese Yen | 0 | Y3,597 | | 3,597 | 6.52 | 44820 |
| D Marks | 0 | DM58.00 | | 58 00 | 6 84 | 44821 |
| Swiss Francs | 0 | SFr51.00 | | 51.00 | 6.34 | 44822 |
| Fr Francs | 0 | FFr227.8 | | 227.8 | 8 13 | 44823 |
| Ecu's | 0 | Ecu27.10 | | 27 10 | 8.46 | 44824 |
| **Managed** | | | | | | |
| Intl Portfolio | 5 | $1 617 | 1 638 | 1.738 | – | 44825 |
| Managed Currency | 5 | $2 089 | 2.089 | 2.200 | – | 44826 |

**Gartmore Fund Managers International Ltd**
PO Box 278, 45 La Motte St., Jersey 0534 27535

| Capital Strategy Fund Ltd (z) | | Bid Price | Yield | City-line |
|---|---|---|---|---|
| American Fd | $– | 1.340 | – | 45067 |
| Canadian Fd | C$– | 0 7661 | 1.00 | 45078 |
| British Fund | £– | 2.224 | 3 00 | 45071 |
| European Fund | DM– | 5 176 | – | 45075 |
| Eastern European | DM– | 4 400 | – | 40648 |
| Asia Pacific Fd | $– | 1.871 | – | 45069 |
| Japan Fund | Y– | 588.2 | – | 45068 |
| Australasian Fd | A$– | 0 3019 | 2 00 | 45077 |
| Global Resources | $– | 0 7291 | 0.70 | 45080 |
| Emerging Mkts Fd | $– | .9637 | 0 50 | 45079 |
| Int Growth Fund | $– | 2.687 | 0.20 | 45070 |
| Sterling Bond Fd | £– | 1 010 | 10.32 | 45072 |
| ECU Bond Fund | Ecu– | 0 9616 | 9.04 | 45076 |
| Int Bond Fund | $– | 1 262 | 6 65 | 45073 |
| Global Conv Bd Fd | $– | 17.38 | 1 48 | 45074 |
| US$ Deposit Fd | $– | 1.051 | 7 09 | 45061 |
| Sterling Deposit Fd | £– | 1 029 | 13.88 | 45060 |
| French Franc Dep Fd | FFr– | 10 64 | 8.64 | 45066 |
| Swiss Fr Dep. | SFr– | 5.267 | 6.30 | 45064 |
| DM Deposit Fd | DM– | 5 244 | 7 13 | 45062 |
| Yen Deposit Fd | Y– | 522 7 | 6.82 | 45063 |
| Aust Dlr Deposit Fd | A$– | 1.095 | 12.28 | 45065 |

**John Govett (Channel Islands) Ltd (1000)F**
PO Box 443, St. Helier, Jersey 0534 75141

## IRELAND (SIB RECOGNISED)

## ISLE OF MAN (SIB RECOGNISED)

## ISLE OF MAN (REGULATED)(**)

## JERSEY (SIB RECOGNISED)

## JERSEY (REGULATED)(**)

## LUXEMBOURG (SIB RECOGNISED)

## LUXEMBOURG (REGULATED)(**)

## SWITZERLAND (SIB RECOGNISED)

## OTHER OFFSHORE FUNDS

[illegible]

**MANAGED FUNDS NOTES**

[illegible]

# CURRENCIES, MONEY AND CAPITAL MARKETS

## MONEY MARKETS

# Hedging support

A weak dollar and a less than buoyant pound are leading financial markets to look towards the Middle East for possible support, but as yet the evidence to say the least is ambiguous.

The cost of keeping troops and military equipment in the Gulf region is considerable, and the economies of some of the main participants, the US and Britain, are not in the best shape to support such a commitment. The US alone will soon have over 300,000 personnel in the Middle East, protecting one of the wealthiest areas in the world.

**UK clearing bank base lending rate 14 per cent from October 8, 1990**

US opinion has not been slow in suggesting that Kuwait should contribute to the cost of restoring its sovereignty, and it can be assumed that similar arguments may apply to Saudi Arabia. It is not surprising, therefore, that there has been speculation that last week's US Treasury refunding auctions could have masked very increased demand from Middle Eastern buyers.

Mr Neil MacKinnon, economist at Yamaichi in London, estimates that Saudi Arabia will make an extra $35bn this year from higher oil prices. It is fairly obvious that this money will be invested in the West or Japan. Before Iraq invaded Kuwait, Saudi Arabia held about 28 per cent of its monetary assets in the US.

Mr David Deakin, at Nikko Bank, believes that the Saudis will contribute to their own defence by funneling money into the US and possibly the UK, but thus far there is no firm evidence.

The market did, however, take note when Middle Eastern buyers bought about the same 20 per cent as Japanese investors of the US three-year paper auctioned last Tuesday. The same sources took 10-15 per cent of Wednesday's 10-year notes, and 5-10 per cent of Thursday's 30-year bond issue.

### £ IN NEW YORK

| Nov.9 | Close | Previous Close |
|---|---|---|
| £ Spot | 1.9655-1.9665 | 1.9660-1.9670 |
| 1 month | 1.00-0.98pm | 0.99-0.98pm |
| 3 months | 2.69-2.66pm | 2.67-2.63pm |
| 12 months | 8.04-7.94pm | 7.95-7.85pm |

Forward premiums and discounts apply to the US dollar

### CURRENCY MOVEMENTS

| Nov.9 | Bank of England Index | Morgan** Guaranty Changes % |
|---|---|---|
| Sterling | 94.4 | -18.0 |
| U.S Dollar | 60.4 | -18.7 |
| Canadian Dollar | 100.5 | -1.0 |
| Austrian Schilling | 110.4 | +12.2 |
| Belgian Franc | 112.2 | -1.7 |
| Danish Krone | 111.4 | +5.6 |
| Deutsche Mark | 119.9 | +25.7 |
| Swiss Franc | 116.2 | +25.1 |
| Guilder | 115.3 | +15.7 |
| French Franc | 106.1 | -10.9 |

### STERLING INDEX

### CURRENCY RATES

### OTHER CURRENCIES

### CHICAGO

### POUND SPOT - FORWARD AGAINST THE POUND

### DOLLAR SPOT - FORWARD AGAINST THE DOLLAR

### EXCHANGE CROSS RATES

### EURO-CURRENCY INTEREST RATES

### MONEY RATES

### LONDON MONEY RATES

### LONDON RECENT ISSUES

### FIXED INTEREST STOCKS

### RIGHTS OFFERS

### FT LONDON INTERBANK FIXING

### BANK OF ENGLAND TREASURY BILL TENDER

### WEEKLY CHANGE IN WORLD INTEREST RATES

## MONEY MARKET FUNDS

### Money Market Trust Funds

### Money Market Bank Accounts

## FT-ACTUARIES WORLD INDICES

Jointly compiled by The Financial Times Limited, Goldman, Sachs & Co., and County NatWest/Wood Mackenzie in conjunction with the Institute of Actuaries and the Faculty of Actuaries

| NATIONAL AND REGIONAL MARKETS Figures in parentheses show number of lines of stock | FRIDAY NOVEMBER 9 1990 US Dollar Index | % chg since 29/12/89 | Pound Sterling Index | Yen Index | DM Index | Local Currency Index | Local % chg from 29/12/89 | Gross Div. Yield | THURSDAY NOVEMBER 8 1990 US Dollar Index | Pound Sterling Index | Yen Index | DM Index | Local Currency Index | DOLLAR INDEX 1990 High | 1990 Low | Year ago (approx) |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| Australia (77) | 123.13 | -18.7 | 92.81 | 100.95 | 95.23 | 105.08 | -17.5 | 7.54 | 124.33 | 93.69 | 102.05 | 96.19 | 106.31 | 158.31 | 118.98 | 148.50 |
| Austria (19) | 197.82 | +8.5 | 148.96 | 162.03 | 152.83 | 152.75 | -4.5 | 1.79 | 198.18 | 149.33 | 162.67 | 153.31 | 153.76 | 285.63 | 178.57 | 139.20 |
| Belgium (61) | 137.95 | -10.8 | 103.98 | 113.09 | 106.68 | 104.27 | -23.2 | 5.56 | 137.92 | 103.93 | 113.19 | 106.69 | 104.59 | 160.02 | 126.67 | 138.89 |
| Canada (120) | 122.91 | -19.2 | 92.64 | 100.77 | 95.05 | 104.13 | -18.4 | 3.83 | 122.49 | 92.30 | 100.53 | 94.75 | 103.64 | 153.61 | 121.24 | 149.11 |
| Denmark (33) | 253.90 | +4.8 | 191.37 | 208.17 | 196.35 | 196.66 | -9.3 | 1.51 | 254.26 | 191.60 | 208.70 | 196.70 | 197.37 | 277.62 | 234.05 | 213.60 |
| Finland (26) | 104.17 | -21.9 | 78.52 | 85.41 | 80.56 | 77.82 | -31.2 | 3.92 | 103.44 | 77.95 | 84.91 | 80.02 | 77.49 | 152.29 | 98.91 | 122.08 |
| France (122) | 137.28 | -12.0 | 103.47 | 112.54 | 106.16 | 107.56 | -24.0 | 3.83 | 136.81 | 103.09 | 112.28 | 105.83 | 107.14 | 168.85 | 124.98 | 130.73 |
| Germany (91) | 112.79 | -8.8 | 85.02 | 92.48 | 87.23 | 87.23 | -19.8 | 2.60 | 110.92 | 83.58 | 91.05 | 85.80 | 85.80 | 144.63 | 101.38 | 95.73 |
| Hong Kong (46) | 119.50 | +2.0 | 90.07 | 97.97 | 92.42 | 119.64 | +1.9 | 5.63 | 118.94 | 89.63 | 97.62 | 92.02 | 119.07 | 147.49 | 112.24 | 117.21 |
| Ireland (17) | 151.03 | -16.8 | 113.84 | 123.82 | 116.80 | 118.16 | -28.2 | 4.42 | 152.31 | 114.77 | 125.02 | 117.83 | 119.53 | 198.57 | 139.04 | 154.98 |
| Italy (91) | 81.50 | -17.2 | 61.43 | 66.81 | 63.02 | 68.15 | -26.9 | 3.61 | 81.87 | 61.68 | 67.19 | 63.33 | 68.42 | 109.26 | 80.87 | 86.69 |
| Japan (454) | 125.28 | -36.5 | 94.43 | 102.71 | 96.90 | 102.71 | -42.8 | 0.83 | 125.82 | 94.81 | 103.28 | 97.35 | 103.28 | 197.26 | 106.58 | 185.98 |
| Malaysia (35) | 193.21 | -15.6 | 145.63 | 158.40 | 149.41 | 200.87 | -15.6 | 3.12 | 195.21 | 147.10 | 160.22 | 151.01 | 203.07 | 250.89 | 182.96 | 193.98 |
| Mexico (12) | 541.38 | +66.3 | 408.06 | 443.86 | 418.68 | 1732.85 | +81.0 | 0.40 | 546.69 | 411.95 | 448.72 | 422.92 | 1750.72 | 561.41 | 324.53 | 290.31 |
| Netherland (41) | 132.09 | -8.2 | 99.56 | 108.30 | 102.16 | 101.20 | -19.4 | 5.31 | 131.83 | 99.34 | 108.20 | 101.99 | 100.96 | 149.03 | 127.56 | 123.46 |
| New Zealand (16) | 48.47 | -32.8 | 36.53 | 39.74 | 37.48 | 42.08 | -34.7 | 8.00 | 48.81 | 36.78 | 40.06 | 37.76 | 42.35 | 75.36 | 48.15 | 74.59 |
| Norway (27) | 229.46 | +14.8 | 172.95 | 188.13 | 177.46 | 180.87 | +1.1 | 1.71 | 229.89 | 173.23 | 188.70 | 177.85 | 181.52 | 276.79 | 202.34 | 172.40 |
| Singapore (25) | 151.39 | -14.6 | 114.11 | 124.12 | 117.07 | 119.36 | -23.1 | 3.70 | 152.60 | 114.99 | 125.28 | 118.05 | 120.08 | 209.24 | 147.24 | 157.53 |
| South Africa (60) | 166.86 | -15.1 | 125.77 | 136.80 | 129.04 | 132.87 | -12.6 | 4.09 | 166.24 | 125.27 | 136.45 | 128.60 | 131.90 | 251.39 | 151.50 | 165.84 |
| Spain (42) | 145.37 | -10.9 | 109.57 | 119.18 | 112.42 | 103.30 | -23.6 | 5.37 | 144.87 | 109.16 | 118.91 | 112.07 | 102.72 | 182.25 | 128.54 | 153.97 |
| Sweden (27) | 163.67 | -14.8 | 123.36 | 134.19 | 126.58 | 134.90 | -23.4 | 3.01 | 164.31 | 123.81 | 134.87 | 127.11 | 135.54 | 234.93 | 158.07 | 173.61 |
| Switzerland (66) | 91.38 | -2.9 | 68.87 | 74.92 | 70.67 | 70.81 | -21.3 | 3.02 | 90.95 | 68.53 | 74.65 | 70.37 | 70.39 | 109.77 | 85.00 | 85.75 |
| United Kingdom (299) | 160.70 | +1.3 | 121.12 | 131.74 | 124.26 | 121.12 | -17.0 | 5.75 | 160.38 | 120.85 | 131.63 | 124.06 | 120.85 | 176.18 | 139.87 | 142.98 |
| USA (533) | 126.46 | -11.6 | 95.32 | 103.68 | 97.80 | 126.46 | -11.6 | 3.90 | 124.04 | 93.47 | 101.82 | 95.98 | 124.04 | 148.95 | 119.06 | 137.80 |
| Europe (963) | 134.70 | -5.4 | 101.53 | 110.44 | 104.18 | 103.01 | -19.7 | 4.51 | 134.16 | 101.09 | 110.12 | 103.79 | 102.57 | 157.65 | 124.91 | 123.83 |
| Nordic (112) | 178.87 | -4.5 | 134.82 | 146.65 | 138.33 | 137.15 | -15.8 | 2.21 | 179.25 | 135.07 | 147.13 | 138.67 | 137.67 | 228.29 | 172.38 | 167.14 |
| Pacific Basin (655) | 124.69 | -35.3 | 93.99 | 102.23 | 96.43 | 103.04 | -41.1 | 1.24 | 125.24 | 94.37 | 102.80 | 96.89 | 103.61 | 192.75 | 107.82 | 181.81 |
| Euro-Pacific (1618) | 129.11 | -25.2 | 97.32 | 105.85 | 99.84 | 103.79 | -33.6 | 2.63 | 129.21 | 97.37 | 106.05 | 99.96 | 103.93 | 174.18 | 116.03 | 158.61 |
| North America (653) | 126.16 | -12.1 | 95.09 | 103.44 | 97.58 | 124.99 | -12.0 | 3.90 | 123.86 | 93.33 | 101.66 | 95.84 | 122.71 | 148.43 | 119.26 | 138.37 |
| Europe Ex. UK (664) | 118.43 | -9.7 | 89.27 | 97.12 | 91.61 | 92.24 | -21.6 | 3.61 | 117.77 | 88.75 | 96.69 | 91.13 | 91.72 | 145.62 | 109.94 | 110.98 |
| Pacific Ex. Japan (201) | 117.12 | -13.2 | 88.28 | 96.04 | 90.59 | 103.88 | -13.4 | 6.41 | 117.68 | 88.68 | 96.61 | 91.05 | 104.45 | 146.72 | 116.03 | 131.79 |
| World Ex. US (1810) | 129.51 | -24.8 | 97.62 | 106.19 | 100.16 | 104.51 | -32.8 | 2.68 | 129.59 | 97.65 | 106.38 | 100.28 | 104.62 | 173.77 | 117.12 | 158.43 |
| World Ex. UK (2044) | 124.19 | -22.9 | 93.61 | 101.83 | 96.05 | 110.36 | -27.3 | 2.76 | 123.37 | 92.96 | 101.27 | 95.45 | 109.87 | 182.00 | 115.37 | 150.73 |
| World Ex. So. Af. (2283) | 127.19 | -20.8 | 95.87 | 104.29 | 98.37 | 111.26 | -26.4 | 3.09 | 126.41 | 95.26 | 103.77 | 97.80 | 110.62 | 161.84 | 118.04 | 149.92 |
| World Ex. Japan (1889) | 129.81 | -9.5 | 97.85 | 106.44 | 100.41 | 116.03 | -15.2 | 4.24 | 128.34 | 96.71 | 105.35 | 99.30 | 114.70 | 151.59 | 124.31 | 132.98 |
| The World Index (2343) | 127.43 | -20.7 | 96.05 | 104.48 | 98.56 | 111.41 | -26.3 | 3.10 | 126.65 | 95.44 | 103.86 | 97.99 | 110.77 | 162.05 | 118.33 | 150.02 |

Base values: Dec 31, 1986 = 100; Finland: Dec 31, 1987 = 115.037 (US $ Index), 90.791 (Pound Sterling) and 94.94 (Local); Nordic: Dec 30, 1988 = 139.65 (US $ Index), 114.45 (Pound Sterling) and 123.22 (Local).



Constituent change 6/11/90: Deletion: Carbide B (Mexico).

## FINANCIAL TIMES STOCK INDICES

| | Nov 9 | Nov 8 | Nov 7 | Nov 6 | Nov 5 | Nov 2 | 1990 High | 1990 Low | Since Compilation High | Since Compilation Low |
|---|---|---|---|---|---|---|---|---|---|---|
| Government Secs. | 80.24 | 80.13 | 80.32 | 80.41 | 80.35 | 80.09 | 84.20 | 74.13 | 127.4 | 49.18 |
| Fixed Interest | 88.33 | 88.40 | 88.43 | 88.47 | 88.45 | 89.13 | 92.91 | 83.80 | 105.4 | 50.53 |
| Ordinary | 1582.6 | 1574.9 | 1590.8 | 1598.9 | 1581.1 | 1570.7 | 1968.3 | 1510.4 | 2008.6 | 49.4 |
| Gold Mines | 166.0 | 166.1 | 167.7 | 168.1 | 166.6 | 170.2 | 378.5 | 163.2 | 734.7 | 43.5 |
| FT-Act All Share | 985.66 | 983.53 | 993.66 | 997.79 | 989.77 | 982.44 | 1226.83 | 962.09 | 1238.57 | 61.92 |
| FT-SE 100 | 2040.6 | 2036.2 | 2059.2 | 2069.8 | 2050.1 | 2030.7 | 2463.7 | 1990.2 | 2463.7 | 986.9 |

# LONDON SHARE SERVICE

### BRITISH FUNDS

### BRITISH FUNDS—Contd

### INT. BANK AND O'SEAS

### CORPORATION LOANS

### COMMONWEALTH & AFRICAN LOANS

### LOANS

### FOREIGN BONDS & RAILS

### AMERICANS

### AMERICANS—Contd

### CANADIANS

Continued on next page

# LONDON SHARE SERVICE

● For Latest Share Prices on any telephone ring direct-0836 43 + four digit code (listed below). Calls charged at 44p per minute peak and 33p off peak, inc VAT

## BANKS, HP & LEASING

| Market Cap. £m | Stock | Price | Week % change | Y'ld Gr's | Last xd | Dividends Paid | City-line |
|---|---|---|---|---|---|---|---|
| 2,396.0 | ABN Amro Fl5 | £9¾ | ...... | 8.9 | 4.9 | Aug May | 1567 |
| 1,474.6 | ANZ SA1 | 152 | 2.7 | 11.8 | 12.6 | Feb July | 1698 |
| 2,737.9 | Abbey National 10p | 209 | -0.7 | 3.6 | 6.8 | Apr Oct | 5411 |
| 897.2 | Allied Irish Ord | 138 | -10.4 | 6.7 | 29.5 | Dec July | 1354 |
| 31.8 | Anglo Irish | 53 | ...... | 7.9 | 30.4 | Jan July | 1355 |
| 113.9 | Ansbacher (H.) 1p | 61 | -3.2 | 5.5 | 12.3 | April | 1624 |
| 721.2 | Bancaire Cie Fr100 | £42¼ | -4.0 | 3.1 | 9.5 | May Mar | 2202 |
| 2,305.4 | Banco Bilbao Viz | £19⅝ | -6.0 | 5.9 | 9.12 | Dec June | - |
| 465.6 | Bank Ireland Ir£1 | 139 | -9.7 | 9.5 | 29.5 | July Dec | 1360 |
| 134.4 | Bank Leumi | £19½ | ...... | - | - | - | 1740 |
| 25.0 | Bank Leumi (U.K.) | 350 | ...... | 5.7 | 6.8 | Mar Sep | 1740 |
| 769.5 | Bank Scotland | 104 | 3.0 | 5.8 | 8.10 | Dec Jul | 1742 |
| 35.0 | Do 9¼pc Irrd Pf | 95 | 1.6 | 13.0 | 22.10 | May Nov | 1462 |
| 13.4 | Bank of Wales | 42 | ...... | 8.9 | 8.10 | Nov Jun | 1743 |
| 5,460.6 | Barclays £1 | 346 | 3.0 | 7.5 | 20.8 | Oct May | 1754 |
| 5.36 | Benchmark 20p | 10 | -9.1 | 10.0 | 9.4 | May Oct | 1802 |
| 39.1 | Brown Shipley £1 | 245 | 0.4 | 6.5 | 11.6 | Jan Aug | 1983 |
| 83.2 | Cater Allen £1 | 351 | 2.6 | 9.3 | 25.6 | Jan. Aug | 2081 |
| 7.72 | Chancery | 37 | 8.8 | - | 25.6 | Jan July | 2102 |
| 316.1 | Commerzbk DM10 | £14 | -6.7 | 4.5 | 27.5 | May | 1046 |
| 15,469.3 | Dai Ichi KBk Y50 | 659 | -6.3 | 0.5 | 4.7 | June | 3221 |
| 6,065.7 | Deutsche Bk DM50 | £189¾ | -5.6 | 2.5 | 17.5 | May | 2345 |
| 165.7 | Espirito Santo | £15½ | -0.8 | 2.5 | - | June | 5187 |
| 291.9 | First Nat. Fin. 10p | 181 | 0.6 | 9.6 | 9.7 | Mar Aug | 2571 |
| 43.6 | FNFC 6.3pc Cv. Pf | 90 | 4.7 | 9.3 | 25.6 | July | 2570 |
| 14,256.8 | Fuji Bank Y50 | 759 | -0.7 | 0.4 | 4.7 | Dec June | 1084 |
| 212.9 | Gerrard & National | 298 | 3.2 | 8.7 | 22.10 | June Dec. | 2686 |
| 55.7 | Guinness Mahon 10p | 86 | -3.4 | 3.3 | 14.5 | Jul Feb | 5074 |
| 378.2 | Hambros 20p | 223 | 1.4 | 6.9 | 25.6 | Jan Sep | 2812 |
| 141.0 | Do 7.5pc Cv Pf | 94 | -1.1 | 10.6 | 10.9 | Apr Oct | 4388 |
| 1,692.4 | HK & Shang HK$2.50 | 29 | -3.3 | 8.8 | 14.9 | October | - |
| 19.6 | Joseph (Leo) £1 | 373 | -1.3 | 5.7 | 6.8 | Jan Sept | 3060 |

### Hire Purchase, Leasing, etc.

## BEERS, WINES & SPIRITS

## BUILDING, TIMBER, ROADS

## BUILDING, TIMBER, ROADS – Contd

## CHEMICALS, PLASTICS

## DRAPERY AND STORES

## ELECTRICALS

## ELECTRICALS – Contd

## ENGINEERING

## ENGINEERING – Contd

## FOOD, GROCERIES, ETC

## HOTELS AND CATERERS

## INDUSTRIALS (Miscel.)

## INDUSTRIALS (Miscel.) – Contd

## INDUSTRIALS (Miscel.) – Contd.

## INSURANCES

## LEISURE

## MOTORS, AIRCRAFT TRADES

### Commercial Vehicles

# LONDON SHARE SERVICE

● Latest Share Prices are available on FT Cityline. To obtain your free Share Code Booklet ring the FT Cityline help desk on 071-925-2128

## MOTORS, AIRCRAFT TRADES – Contd

### Components

| Market Cap. £m | Stock | Price | Week % change | Y'ld Gr's | Last xd | Dividends Paid | City-line |
|---|---|---|---|---|---|---|---|
| 9.06 | Abbey Panels | 453 | ........ | 1.0 | 6.8 | Sept Feb | 1501 |
| 12.0 | Airflow Streamlines | 140 | 1.4 | 5.7 | 5.11 | Jan July | 1538 |
| 20.8 | Bostrom 5p | 160 | ........ | 4.8 | 8.10 | May Nov | 1438 |
| 405.2 | Dowty 50p | 164 | -2.4 | 7.3 | 23.7 | Mar Oct | 2371 |
| 87.3 | FR Group | 118 | -1.7 | 7.2 | 5.11 | Dec. July | 2627 |
| 125.9 | Kwik-Fit Hldgs. 10p | 78 | 9.9 | 4.1 | 8.10 | Nov June | 3113 |
| 816.6 | Lucas Inds | 118 | 4.4 | 7.9 | 5.11 | Jun Jan | 3232 |
| 9.94 | Do. Warrants | 14½ | -3.3 | – | – | – | 3065 |
| 29.6 | Mid-States 10p | 61 | 1.7 | 1.6 | 24.9 | November | 1845 |

### Garages and Distributors

| Market Cap. £m | Stock | Price | Week % change | Y'ld Gr's | Last xd | Dividends Paid | City-line |
|---|---|---|---|---|---|---|---|
| 6.29 | Alexanders 10p | 16 | ........ | 8.3 | 15.1 | March | 1562 |
| 42.1 | Appleyard 10p | 90 | ........ | 11.6 | 10.9 | Oct Apr | 1629 |
| 1.79 | Bletchley Motor 20p | 60 | ........ | 16.7 | 24.9 | Oct Jun | 1427 |
| 13.6 | Caffyns 50p | 418 | -1.9 | 3.7 | 25.6 | Jan. July | 2031 |
| 19.7 | Central Motor Auctns. | 103 | ........ | 4.2 | 20.8 | October | 4930 |
| 7.43 | Cook (D.C.) Hldgs. | 30 | ........ | 4.4 | 10.9 | Feb Oct | 2231 |
| 63.2 | Cowie (T.) 5p | 50 | 6.4 | 11.2 | 6.8 | Sep Apr | 2260 |
| 12.9 | Dagenham Motors 10p | 73 | ........ | 9.6 | 8.10 | Nov May | 4954 |
| 10.1 | Davenport Vernon 10p | 76 | -2.6 | 6.1 | 25.6 | Mar Jul | 3912 |
| 5.58 | Equity & Gen 5p | 208 | ........ | 10.0 | 16.10 | Dec Oct | 2487 |

## NEWSPAPERS, PUBLISHERS

## PAPER, PRINTING, ADVERTISING

## PROPERTY

## PROPERTY – Contd

## SHOES AND LEATHER

## SOUTH AFRICANS

## TEXTILES

## TOBACCOS

## TRANSPORT

## INVESTMENT TRUST

## INVESTMENT TRUST – Contd

## INVESTMENT TRUST – Contd

Net asset values supplied by County NatWest Wood Mackenzie

## FINANCE, LAND, ETC

## WATER

## OIL AND GAS

## OIL AND GAS – Contd

| Market Cap. £m | Stock | Price | Week % change | Y'ld Gr's | Last xd | Dividends Paid | City-line |
|---|---|---|---|---|---|---|---|
| 20.5 | Fairhaven Intl. 5c | 15 | -1.9 | 0.4 | 9.4 | May | 3501 |
| 5.34 | Flextland Oil 10p | 15 | ........ | – | – | – | 2578 |
| 6.29 | Gaelic Resources | 7 | 47.4 | – | – | – | 4579 |
| – | Global Nat Res. | 356 | 2.9 | – | – | – | 2706 |
| 122.7 | Goal Pet 5p | 91½ | -2.7 | 1.5 | 9.4 | May | 2714 |
| 152.2 | Gt. Western Res. Aj. | 168 | -1.2 | 3.0 | 29.5 | Feb.Jun | 2742 |
| – | Gulfstream Res | 9 | 2.9 | – | – | – | – |

## OVERSEAS TRADERS

## PLANTATIONS

### Rubbers, Palm Oil

### Teas

## MINES

### Central Rand

### Eastern Rand

### Far West Rand

### O.F.S.

### Diamond and Platinum

### Central African

### Finance

### Australians

### Tins

## MINES – Contd

| Market Cap. £m | Stock | Price | Week % change | Y'ld Gr's | Last xd | Dividends Paid | City-line |
|---|---|---|---|---|---|---|---|
| 2.29 | Ayer Hitam SM1 | 25 | ........ | – | 9.3 | Apr. Nov. | 1714 |
| 7.18 | Kapay Berhad M$0.50 | 45 | ........ | 4.6 | 12.3 | Sep Apr | 2726 |
| 112.9 | Malaysia Min. 10c | 27 | ........ | 4.9 | 8.10 | Nov Jun | 3272 |
| 13.1 | Petaling SM1 | 130 | ........ | 25.2 | 27.11 | Dec July | 3644 |
| 1.34 | Tanjong Tin 15p | 90 | ........ | – | 6'81 | – | – |

### Miscellaneous

## THIRD MARKET

| Market Cap. £m | Stock | Price | Week % change | Y'ld Gr's | Last xd | Dividends Paid | City-line |
|---|---|---|---|---|---|---|---|
| 0.62 | Moray Firth 1p | 3½ | -6.7 | – | – | – | 3412 |
| 1.19 | Navan Resources | 22 | -12.0 | – | – | – | 1185 |
| 1.53 | Ovoca Gold IR 2p | 22 | -4.3 | – | – | – | 1470 |
| 3.06 | Oxford Virology 5p | 22 | ........ | – | – | – | 2712 |
| 13.2 | Paddington 5p | 778 | ........ | – | – | – | 3117 |
| 4.68 | Ramsden's (Harry) | 78 | 11.4 | 7.7 | 9.7 | January | 2011 |
| 4.02 | Restaminster 5p | 24 | ........ | ‡ | – | Mar Oct | 5228 |
| 1.12 | Sempernova | 8 | ........ | – | – | – | 1645 |
| 3.40 | Sleepy Kids 5p | 17 | ........ | – | – | – | 5068 |
| 0.38 | Systems Connections | 2 | ........ | – | – | – | 5341 |
| 5.38 | Tomorrows Leisure 20p | 48 | ........ | 2.8 | 24.9 | October | 4248 |
| 1.29 | UPL Group 10p | 32 | ........ | – | 22.5 | Dec. July | 4362 |
| 2.97 | Video Magic Leis. 1p | 18 | ........ | – | 26.1 | – | 5071 |
| 2.40 | Vista Ents 5p | 2½ | 11.1 | – | – | – | 3994 |
| 6.71 | Wilton Group 1p | 1½ | ........ | – | – | – | 3628 |

### NOTES

Stock Exchange dealing classifications are indicated to the right of security names: α Alpha, β Beta, γ Gamma.
Unless otherwise indicated, prices are in pence and denominations are 25p. Yields are based on middle prices, are gross, adjusted to ACT of 25 per cent and allow for value of declared distribution and rights.
Estimated Net Asset Values (NAVs) are shown for Investment Trusts, in pence per share, along with the percentage discounts (Dis) or premiums (Pm –) to the current pre-closing share price. The NAV basis assumes prior charges at par value, convertibles converted and warrants exercised if dilution occurs.

- ● "Tap Stock"
- ‡ Interim since reduced, passed or deferred
- ‡‡ Tax-free to non-residents on application
- ♥ Not officially UK listed; dealings permitted under rule 535(4)(a)
- ♦ USM; not listed on Stock Exchange and company not subjected to same degree of regulation as listed securities.
- ‡‡ Not officially listed.
- # Price at time of suspension
- ◆ Not comparable
- † Cover allows for conversion of shares not now ranking for dividends or ranking only for restricted dividend.
- ★ Cover does not allow for shares which may also rank for dividend at a future date.
- ¶ No par value

B.Fr. Belgian Francs. Fr. French Francs §§ Yield based on assumption Treasury Bill Rate stays unchanged until maturity of stock. c Cents. e Redemption yield. f Flat yield. k Kenya. C Canadian. E Minimum tender price.
Abbreviations: xd ex dividend; xc ex scrip issue; xr ex rights; xa ex all; xi ex capital distribution.

## REGIONAL & IRISH STOCKS

The following is a selection of Regional and Irish stocks, the latter being quoted in Irish currency.

### IRISH

## TRADITIONAL OPTIONS

3-month call rates

### Industrials

### Property

### Oils

### Mines

| | |
|---|---|
| RTZ | 46 |

This service is available to every Company dealt in on Stock Exchanges throughout the United Kingdom for a fee of £1850 per annum for each security.

## FT Share Service

The following changes have been made to the FT Share Information Service:

**Additions:** DRX Inc. (Section: Mines-Miscellaneous).

**Deletions:** Authority Invs. (Trusts, Finance, Land).
Blackwood Hodge (Engineering).
*Chestergate Group (Industrials).*
Dukeminster (Property).
Memory Computers (Electricals).
Pancontinental (Mines-Australians).
Sungei Besi Mines Malaysia (Mines-Tins).

4pm prices November 9

# NEW YORK STOCK EXCHANGE COMPOSITE PRICES

| 12 Month High | 12 Month Low | Stock | Div. | Yld. | P/E | Sls 100s | High | Low | Close Quote | Ch'ge Prev. Close |
|---|---|---|---|---|---|---|---|---|---|---|
| | | – A–A–A – | | | | | | | | |
| 37⅛ | 9½ | AAR | .48 | 4.7 | 6 | 1758 | 10⅛ | 9⅝ | 10⅛ | + ⅛ |
| 9⅜ | 7⅞ | ACM n | 1.01 | 12. | | z439 | 8⅝ | 8⅛ | 8⅛ | |
| 11½ | 8⅜ | ACMIn | 1.28 | 12. | | x1587 | 10⅛ | 10 | 10⅛ | + ⅛ |
| 9⅜ | 6½ | ACM M | n1.01 | 14. | | x239 | 7⅛ | 7⅛ | 7⅛ | |
| 12⅛ | 10 | ACMMM | 1.50 | 13. | | x140 | 11⅝ | 11⅜ | 11½ | |
| 11½ | 8⅝ | ACM Sc | 1.26 | 13. | | 1413 | 9⅜ | 9⅛ | 9⅛ | – ⅛ |
| 9⅜ | 7⅛ | ACMSp | 1.01 | 12. | | 1055 | 8⅜ | 8⅛ | 8⅜ | + ⅛ |
| 24⅝ | 15⅞ | AL Lab | .16 | .8 | 19 | 35 | 19½ | 19½ | 19½ | |
| 5⅜ | 1 | AM Intl | | | | 1125 | 1⅝ | 1½ | 1⅝ | + ⅛ |
| 21⅞ | 4⅝ | AM In pf | 2 | 22. | | 192 | 9⅛ | 8⅝ | 9 | + ½ |
| 73½ | 39⅜ | AMR | | | 14 | 1290 | 46⅞ | 46⅛ | 46⅛ | |
| 28½ | 25 | ANR pf | 2.67 | 10. | | 560 | 26⅜ | 25⅜ | 25⅜ | – ⅛ |
| 4 | 1½ | ARX | | | 6 | 12 | 2 | 1⅞ | 1⅞ | |
| 72⅛ | 36⅛ | ASA | 3 | 6.9 | | x430 | 44½ | 43⅝ | 43⅝ | – ⅜ |
| 3½ | 3⅛ | ATTC wt | | | | 20 | 3⅜ | 3⅜ | 3⅜ | |
| 45⅝ | 31⅛ | AbtLab | .84 | 2.0 | 19 | 10712 | 41⅞ | 40⅝ | 41⅛ | + ⅜ |
| 14 | 10⅞ | Abitibi g | .50 | | | 9 | 10⅞ | 10⅞ | 10⅞ | |
| 11⅝ | 4⅝ | AcmeC | .40 | 6.7 | 7 | 19 | 6 | 5⅝ | 6 | + ⅜ |
| 9⅜ | 5⅛ | AcmeE | .32 | 6.2 | 9 | 27 | 5⅜ | d 5⅛ | 5⅛ | – ⅛ |
| 32⅞ | 16⅞ | Acuson s | | | 20 | 741 | 25⅛ | 23⅞ | 24⅞ | + 1⅛ |
| 16⅞ | 14⅞ | AdaEx | 2.08e | 14. | | 311 | 15⅞ | 15⅛ | 15⅛ | + ⅛ |
| 18⅜ | 10 | Adobe | | | | 274 | 11⅞ | 11⅝ | 11⅞ | + ⅛ |
| 20⅛ | 16½ | Adob pf | 1.84 | 11. | | 39 | 17⅛ | 17 | 17⅛ | + ⅜ |
| 21⅝ | 19⅛ | Adob pf | 2.40 | 12. | | 4 | 20⅜ | 20⅜ | 20⅜ | + ⅛ |
| 11⅜ | 3⅝ | AMD | | | | 2022 | 4 | 3⅞ | 4 | + ⅛ |
| 32⅜ | 13 | AMD pf | 3 | 19. | | 241 | 16⅛ | 15 | 16⅛ | + ⅛ |
| 9⅛ | 1⅝ | Advest | .16 | 7.5 | | 393 | 2⅛ | 2 | 2⅛ | + ⅛ |
| 62 | 29 | AetnLf | 2.76 | 7.9 | 8 | 4563 | 35⅛ | 33⅞ | 34⅞ | + ⅞ |
| 12⅜ | 6⅛ | AhPb | .24 | 3.5 | | 317 | 6⅞ | 6⅛ | 6⅞ | + ⅛ |
| 22½ | 10⅝ | Ahmans | .88 | 6.6 | | 57656 | 13⅛ | 12½ | 13⅛ | + ⅞ |
| 3⅝ | 1⅞ | Aileen | | | 6 | 78 | 3⅛ | 3⅛ | 3⅛ | – ⅛ |
| 61 | 42⅞ | AirPrd | 1.44 | 2.9 | 12 | 704 | 49⅛ | 48⅜ | 49⅛ | + ⅞ |
| 27 | 13½ | AirFrt s | .30 | 1.9 | 8 | 220 | 16 | 15⅞ | 16 | |
| 24½ | 11⅛ | Airgas | | | 22 | 267 | 12⅜ | 12 | 12 | – ⅛ |
| 20⅜ | 13⅞ | Airlease | 2.52 | 17. | 7 | 39 | 15⅛ | 14⅞ | 15⅛ | + ⅞ |
| 23½ | 21⅛ | AlaP pf | 2.13e | 9.3 | | 6 | 23 | 23 | 23 | + ⅛ |
| 10⅛ | 9 | AlaP dpf | .87 | 9.2 | | 9 | 9½ | 9½ | 9½ | |

Continued on Page 37

# NYSE COMPOSITE PRICES

Continued from previous Page

| 12 Month High | Low | Stock | Div. | Yld. | P/E | Sls 100s | High | Low | Close Quote | Ch'ge Prev. Close |
|---|---|---|---|---|---|---|---|---|---|---|
| 13 | 3 5/8 | RMI Ti | .10 | 2.6 | | 944 | 4 | 3 3/4 | 3 7/8 | - 1/8 |
| 17 5/8 | 5 5/8 | ROC Fd.38e | | 5.1 | | 181 | 7 1/2 | 7 3/8 | 7 1/2 | + 1/8 |
| 6 3/4 | 4 1/2 | RPS | .83e | 17. | 5 | 99 | 5 | 4 7/8 | 4 7/8 | |
| 41 3/4 | 30 | RTZ n | 1.98e | 6.1 | | 1 | 32 5/8 | 32 5/8 | 32 5/8 | + 1/2 |
| 67 1/2 | 42 5/8 | Racal | .60e | 1.2 | 26 | 288 | 50 1/2 | 49 | 50 1/4 | +1 1/4 |
| 108 5/8 | 77 3/4 | RalsPur | 1.85 | 1.9 | 15 | 1506 | 97 5/8 | 94 1/4 | 96 5/8 | +3 5/8 |
| 8 3/4 | 6 3/4 | RangrO | .05e | .6 | 19 | 379 | 7 7/8 | 7 3/4 | 7 7/8 | |
| 35 1/2 | 15 3/4 | Raycm | .32 | 1.7 | | 611 | 18 7/8 | 18 1/2 | 18 7/8 | + 1/8 |
| 22 3/4 | 14 3/8 | RJamF | .24 | 1.6 | 5 | 17 | 14 5/8 | 14 1/2 | 14 5/8 | + 1/4 |
| 28 1/2 | 16 5/8 | Rayonr | 3.60 | 17. | 5 | 75 | 21 1/2 | 21 1/4 | 21 1/4 | - 1/4 |
| 81 3/4 | 57 3/4 | Raythn | 2.40 | 3.5 | 8 | 2194 | 69 1/2 | 68 1/4 | 69 | - 1/2 |
| 27 5/8 | 21 | RdrDg n | .60 | 2.3 | 16 | 469 | 26 7/8 | 25 5/8 | 25 5/8 | |
| 5 | 1 | RdgBte | | | | 595 | 1 5/8 | 1 3/8 | 1 1/2 | - 1/8 |
| 16 1/4 | 11 5/8 | REIT | 1.42 | 11. | 9 | 7 | 13 | 12 3/4 | 12 3/4 | + 1/8 |
| 7 3/4 | 4 3/8 | RecnEq | | | | 1128 | 5 | 4 1/2 | 4 5/8 | - 3/8 |
| 20 | 8 3/8 | Reebok | .30 | 2.8 | 7 | 2878 | 10 7/8 | 10 5/8 | 10 3/4 | + 1/4 |
| 11 7/8 | 1 5/8 | Reece | .05j | | | 9 | 2 1/4 | 2 1/8 | 2 1/8 | - 1/8 |
| 1/2 | 3-16 | Regal | | | | 150 | 5-16 | 9-32 | 9-32 | |
| 15 | 6 3/4 | ReichTg | 1.62 | 20. | 5 | 70 | 7 7/8 | 7 1/2 | 7 3/4 | - 1/8 |
| 6 5/8 | 4 3/8 | RelGrp | .32 | 6.2 | | 1158 | 5 1/8 | 4 7/8 | 5 1/8 | + 1/4 |
| 30 5/8 | 19 1/2 | Repsol | n.86e | 3.7 | | 165 | 22 7/8 | 22 3/4 | 22 7/8 | - 1/8 |
| 6 | 3 | RepGyp | .19t | 5.8 | | 5 | 3 3/8 | 3 3/8 | 3 3/8 | - 3/8 |
| 52 3/8 | 37 1/4 | RepNY | 1.32 | 3.1 | 6 | 31 | 43 3/8 | 42 3/4 | 43 1/8 | + 3/8 |
| 44 | 38 3/4 | RNY pfB3.55e | | 9.3 | | 286 | 39 1/8 | 39 | 39 1/8 | - 1/8 |
| 7 5/8 | 1 1/4 | Rexene | | | | 78 | 1 5/8 | 1 5/8 | 1 5/8 | |
| 27 1/8 | 11 1/2 | RayRey | .80 | 6.0 | 6 | 19 | 13 3/8 | 13 3/8 | 13 3/8 | + 1/8 |
| 70 | 48 1/2 | ReyMtl | 1.80 | 3.7 | 7 | 3895 | 49 1/2 | 49 | 49 1/4 | + 1/4 |
| 87 1/2 | 66 3/4 | RP Ror | n.84 | 1.3 | | 986 | 66 1/4 | 65 3/4 | 66 1/8 | + 1/4 |
| 19 | 6 3/4 | RhP pfA1.80e | | 16. | | 15 | 10 | 9 3/4 | 9 7/8 | - 1/8 |
| 3 1/2 | 3/8 | RhnP wt | | | | 55 | 9-16 | 1/2 | 1/2 | |
| 22 | 9 1/4 | RhnPl | n1.60e | 16. | | 45 | 10 1/8 | 9 3/4 | 9 7/8 | - 1/4 |
| [illegible] | | | | | | | | | | |

| 12 Month High | Low | Stock | Div. | Yld. | P/E | Sls 100s | High | Low | Close Quote | Ch'ge Prev. Close |
|---|---|---|---|---|---|---|---|---|---|---|
| [illegible] | | | | | | | | | | |
| 60 1/8 | 29 | Xerox | 3 | 9.4 | 6 | 1522 | 31 7/8 | 31 1/4 | 31 3/4 | + 3/8 |
| 32 5/8 | 13 3/4 | XTRA | .72 | 5.1 | | 1 | 14 1/8 | 14 1/8 | 14 1/8 | - 1/8 |
| 4 | 5/8 | Zapata | | | | 159 | 13-16 | 3/4 | 13-16 | +1-16 |
| 9 1/2 | 3 | Zemex | | | | 30 | 3 1/8 | 3 | 3 1/8 | |
| 13 3/4 | 4 | ZenithE | | | | 515 | 6 1/8 | 5 7/8 | 6 1/8 | + 1/8 |
| 19 3/8 | 9 7/8 | ZenNtl | .88 | 8.6 | 7 | 88 | 10 1/2 | 10 1/4 | 10 1/4 | - 1/8 |
| 6 | 4 1/2 | Zenix | .88 | 20. | | 107 | 4 5/8 | 4 5/8 | 4 5/8 | - 1/8 |
| 17 1/4 | 9 7/8 | Zero | .40 | 3.9 | 11 | 149 | 10 1/2 | 10 1/4 | 10 3/8 | + 1/8 |
| 51 1/4 | 28 5/8 | Zurnin | .88 | 2.7 | 14 | 322 | 33 | 31 3/4 | 32 3/4 | +1 1/8 |
| 12 5/8 | 10 1/8 | Zweig | 1.15e | 11. | | 182 | 10 1/2 | 10 3/8 | 10 3/8 | |
| 10 | 7 7/8 | ZweigTl | .84 | 10. | | 1026 | 8 1/2 | 8 1/4 | 8 3/8 | + 1/8 |

Sales figures are unofficial. Yearly highs and lows reflect the previous 52 weeks plus the current week, but not the latest trading day. Where a split or stock dividend amounting to 25 percent or more has been paid, the year's high-only range and dividend are shown for the new stock only. Unless otherwise noted, rates of dividend are annual disbursements based on the latest declaration.

a-dividend also xtra(s). b-annual rate of dividend plus stock dividend. c-liquidating dividend. cld-called. d-new yearly low. e-dividend declared or paid in preceding 12 months. g-dividend in Canadian funds, subject to 15% non-residence tax. i-dividend declared after split-up or stock dividend. j-dividend paid this year, omitted, deferred, or no action taken at latest dividend meeting. k-dividend declared or paid this year, an accumulative issue with dividends in arrears. n-new issue in the past 52 weeks. The high-low range begins with the start of trading. nd-next day delivery. P/E price-earnings ratio. r-dividend declared or paid in preceding 12 months, plus stock dividend. s-stock split. Dividends begin with date of split. sls-sales. t-dividend paid in stock in preceding 12 months, estimated cash value on ex-dividend or ex-distribution date. u-new yearly high. v-trading halted. vi-in bankruptcy or receivership or being reorganised under the Bankruptcy Act, or securities assumed by such companies. wd-distributed. wi-when issued. ww-with warrants. x-ex-dividend or ex-rights. xdis-ex-distribution. xw-without warrants. y-ex-dividend and sales in full. yld-yield. z-sales in full.

# AMEX COMPOSITE PRICES

4pm prices November 9

| Stock | Div. | P/E | Sls 100s | High | Low | Close | Chng |
|---|---|---|---|---|---|---|---|
| [illegible] | | | | | | | |

# NASDAQ NATIONAL MARKET

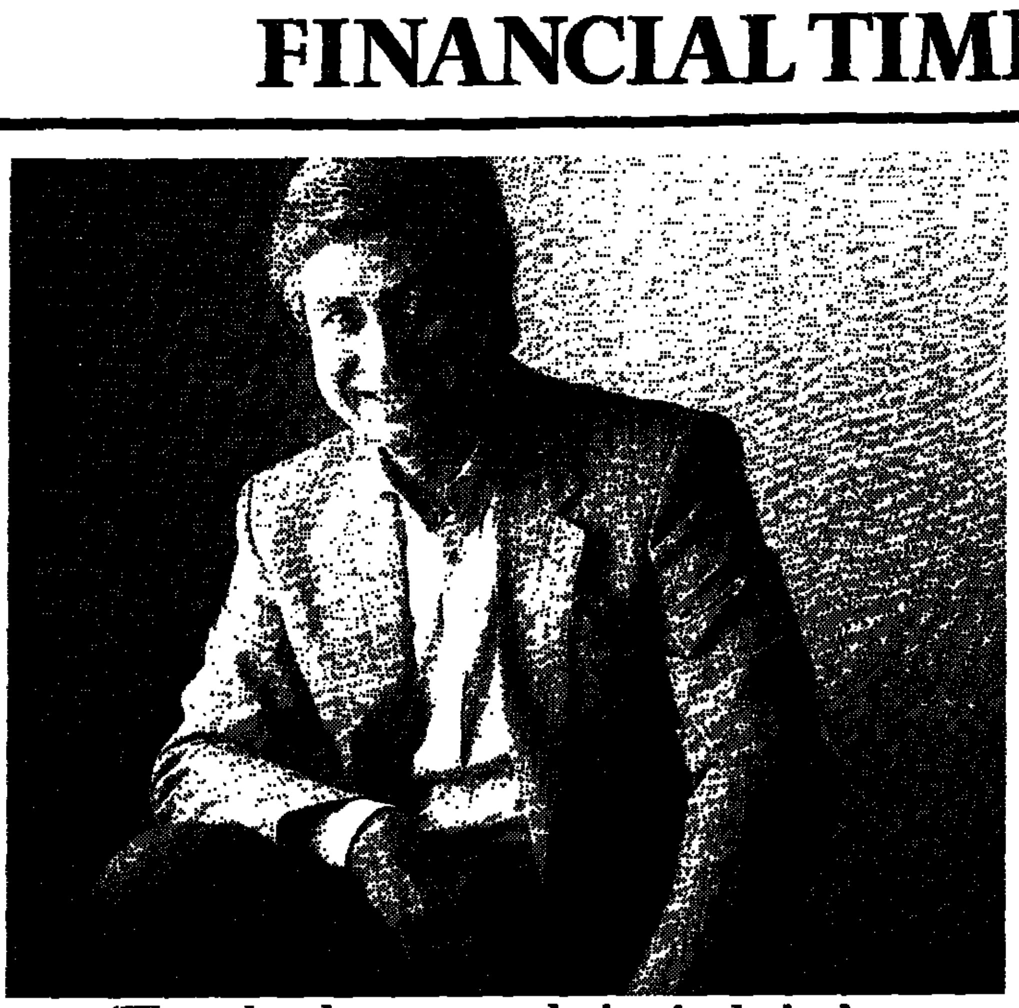
4pm prices November 9

| Stock | Div. | Sales 100s | High | Low | Last | Chng |
|---|---|---|---|---|---|---|
| [illegible] | | | | | | |
| XL Dte | | 5 107 | 7 1/2 | 6 3/4 | 7 1/4 | + 1/2 |
| XOMA | | 1854 | 17 | 16 | 16 | - 1/4 |
| Xilinx | | 380 | 12 1/2 | 12 1/4 | 12 1/4 | |
| YeoEnS | 1.52 | 16 284 | 19 | 18 1/2 | 19 | |
| YelowF | .94 | 24 1602 | 21 5/8 | 21 1/4 | 21 3/8 | + 1/8 |
| YorkRs | | 10 969 | 6 7/8 | 7 1/4 | 6 7/8 | + 1/2 |
| Zeos | | 16 66 | 14 | 13 3/4 | 14 | + 1/4 |
| ZionBc | 1.44 | 7 24 | 27 3/4 | 26 3/4 | 27 3/4 | + 5/8 |

*MONDAY INTERVIEW*

# Versatile in da Vinci tradition

**Haig Simonian** talks to Giorgetto Giugiaro, the Italian designer



**'There has been an explosion in design'**

In the age-old battle between rationalism and art, Giorgetto Giugiaro, the Italian car designer who has turned his hand to items ranging from Parker pens to pasta, puts himself on the side of the artists – but only just.

Unlike many of his counterparts at the car-designing *carrozzerie* dotted around Turin, Italy's car capital, his name tends to be more frequently associated with bread and butter mass production vehicles than the motor show exotica which leave drivers drooling but seldom roll off the stand.

Scribbling on a pad in the reception area at Italdesign, the design consultancy he set up with two partners in 1968, it is hard to believe that the hurried penstrokes, barely distinguishable from many a schoolboy's dream-car doodles, are the stuff from which Volkswagen Golfs, Fiat Unos and Renault 19s and 21s have rolled off the production line in their millions.

"I used my artistic preparation to illustrate an object which is the fruit of my technical training," Giugiaro says to describe the car designer's trade. "We appreciate the engineers' problems. But our job is to stimulate them to find the best solutions."

In that sense, Giugiaro fits into the tradition of Italian artist-technicians stretching back to Leonardo da Vinci and before. But while other illustrious contemporaries, notably Pininfarina and Bertone, have also designed plenty of cars, few have had a hand in so many as Giugiaro.

Fewer still have turned their talents to such a wide range of products. Among his other creations, brought out by Giugiaro Design, the industrial design house he set up in 1981, are award-winning Nikon F3 and F4 cameras, Necchi's Logica sewing machine and, a few years back, a novel form of pasta with grooves to hold the sauce.

The impetus to take on more industrial design work stemmed from a desire to fill the sometimes lengthy gaps between big car projects.

"There are often long periods of waiting in the car business, so we do a lot of other projects, often out of curiosity," he says.

Sometimes the motives are also personal. The sewing machine stemmed from childhood memories of his mother struggling to thread her vintage machine. At other times, such ventures can have useful spinoffs in gaining experience or reaping unexpected publicity.

Nothing brought more notoriety in epicurean Italy than the ribbed pasta. "I scandalised a lot of people," he says. But there were benefits too. "A lot of ordinary people had never heard of me as a car designer. Meanwhile, some car journalists were shocked to see me designing pasta."

Yet it is for cars – which also happen to be the most lucrative part of the business – that he remains best known.

Whatever his appreciation for the technical side of creating a new vehicle, based on "that university which is Fiat", he has had his fair share of tussles with the nuts and bolts world of engineering.

Buyers' tastes have shifted away from pure functionalism to more aesthetically-based judgements, but he bemoans the fact that engineers are still the top dogs in the world car industry. And "engineers still make products to impress other engineers."

Take the original Volkswagen Golf, the lumpy hatchback which restored VW's fortunes after the death of its famous Beetle. Struggling to find a replacement, VW's engineers had cut open a competitor's innovative hatchback to examine its innards and assess its production costs before planning their own model.

"For their top man, aesthetics was something best left to mathematicians," Giugiaro recalls.

But if equations alone were the ingredient for a top seller, how did the Alfasud – which he also designed and which he thinks was the more spacious car – not prove the winner? "How do you account for the fact that the Golf sold 6m and the Alfasud only 4m?"

Giugiaro recalls the battle over one design which was particularly easy on the eye. "I redid the whole thing for 2cm – because the technicians demanded the extra boot space. I told them: 'It's perfect like it is. Why change it if you like it?' The person buying it doesn't make these calculations. He buys it because of the way it looks and how it runs on the road."

Such gut feeling is increasingly born out by market research. When Ford asked potential buyers of its newly-released Escort what were the most important characteristics, appearance and price topped the list.

But is growing sophistication among buyers inevitably linked to less rational choices? Giugiaro admits that small cars still tend to be bought on more rational grounds, explaining why marques like Fiat and Lancia prefer more functional designs.

Even with utility vehicles, buyers' tastes have changed in line with greater affluence, he argues. "The second car can be something different. One of my constant battles with manufacturers is to ask, who buys the car? Do customers really check its height in centimetres or examine the size of the boot?"

So although a medium-sized BMW may be less comfortable and more cramped in the back than the boxier Lancia Thema saloon – which he also designed – Giugiaro is the first to admit that people buy the German model for other reasons. "In certain moments man is super-rational, and in certain moments just the opposite," he says.

"Selling cars is based on naivety and on the lack of knowledge of the buyer. Ninety per cent of purchasers have no idea about the details of the car they're buying; only 10 per cent know everything," he reckons.

The new requirements of the marketplace have put increasing pressure on designers to come up with ideas combining a sense of luxury and elegance with cars of relatively modest dimensions and price tags, he says. Modestly, he cites the Audi 80, in which he does not claim a hand, as a particularly pleasing example of the new genre. "In his end, the customer goes for the illusion of luxury."

Does such praise for German cars, which is matched in deed – Giugiaro has Italy's first BMW 850 coupe parked outside the door – imply a recognition that Italians, once the gurus of automotive design, are no longer top dogs?

The difficulty, he says, is not that the Italians have lost their touch, but that others have got much better. "Design" is no longer an Italian monopoly, he says. "Everybody is dedicating himself to this thing now. It's impossible for a country always to be the leader."

At its height in the 1950s and early 1960s, Italian designers thrived on their stress on simplicity, born of post-war financial stringency. "The lack of money contributed to simplicity and made certain products aesthetically more pleasing," he says.

It was a period of "simple, elegant solutions to design problems", helped by the fact that many young architects were out of work and turning their hands to other products, notably furniture.

Since then, "there has been an explosion in design around the world; it's not just Italy now". Even in fashion, where he thinks the country is still a neck ahead, its lead could yet be challenged.

Japan in particular has taken design to its heart, coming out with a cornucopia of exciting ideas at astonishing speed, he thinks. But Giugiaro is not worried that the Japanese stand to put him out of business. Just the opposite. In the motor industry, Japanese companies, for which he has worked since 1968, have become his biggest customers.

Second-tier marques in particular have turned to Italdesign to burnish their images. Giugiaro has already designed three models for Isuzu and has performed a similar function for Hyundai of South Korea and even Seat, whose eye-catching Ibiza model also flowed from his pen.

"Companies with shorter traditions make much of the designer as a way of gaining a customer's confidence," he says. Seat at the outset played not only on the Ibiza's famous Italian designer, but also the fact that Porsche was deeply involved in its engineering.

But not all his customers in the motor industry like Giugiaro's role in their products to be so widely known. In the US especially, design remains a jealously-guarded in-house function. "It's always up to the client whether to use my name or not. A lot of jobs we do in secret," he says.

While the loss of public recognition may offend his artistic sensibilities, it makes ample sense to his business brain. Identification with one new car could easily dent relations with another client, especially if both customers are planning similar projects.

Anyway, after a decent interval, Giugiaro can always lift the lid on his participation. "I want to have it known eventually, otherwise I might end up with no clients in the end," he says. Judging by his track record so far, that seems to be the least of his problems.

**PERSONAL FILE**

**1938** Born in Garessio, north-west Italy.
**1953-55** Studied at Turin Academy of Fine Arts.
**1955** Joined Fiat styling centre, Turin.
**1959** Moved to the styling centre at Bertone, a leading auto designer.
**1965** Became head of the Styling and Prototype Centre at Ghia. Work includes Maserati Ghibli and Mangusta.
**1968** Founded Italdesign with Aldo Mantovani and Luciano Bossi.
**1981** Set up Giugiaro Design for non-car activities.
**1990** Produces car designs for Volkswagen, Fiat, Renault, SEAT, Isuzu, Lotus, Hyundai, BMW, Maserati.

# Exit east, pursued by a bear

**By Anthony Harris in Washington**

Looking back on three years in what is once again – if only temporarily – the capital of the world, it is impossible to shake off a feeling of total unreality. Everywhere outside the beltway which enables the world to by-pass this seductive city, momentous things have been happening – for once this tired old word means what it says. A whole political system has collapsed, Europe has reawoken, and as near as New York there is the gravest financial crisis since 1929.

Yet here, only Saddam Hussein has partially diverted Washington from its unchanging squabbles. He has the full attention, that is to say, of the president; the legislators have been obsessed, just as they were three years ago, with the ways and means of making a trivial cut in a large deficit. They have barely discussed the threat of war, except to grasp an excuse to keep all the major defence programmes in being, though in an emaciated form, and so keep everyone's constituents fairly happy. The peace dividend has been passed.

The unmoved mover, or the still centre of the turning world? Hardly. Things do happen, but they go unremarked. US proposals for pan-American free trade convulse Mexico and Canada, but provoke a stifled yawn here. The US Treasury does deploy its one effective economic instrument, its control of exchange rate intervention; the only comment seems to come from Harvard, the devaluation capital of the US.

All the same, the clearest lesson of three years is that although this is, in theory, the source of US policies, there is hardly any policy to be found here. Only politics. That is only partly the fault of a president who has no apparent objectives, and who invents new kinds of ambiguity every time he opens his mouth; it is not really the result of the political opposition between executive and legislature, which is the rule rather than the exception here. It is rather the designed result of the constitution, as the voters seem to understand very well when they elect Democrats to look after their local interests, and Republicans to stand for the national interest.

A visitor from an elective dictatorship like Great Britain feels this division of powers first as a liberation. A country where there are virtually no state secrets, where every executive decision is questioned, and many are reversed, feels at first like a liberation, an escape from claustrophobia. Then impatience begins to set in. It is not what the US government cannot do that is so frustrating, but what it can.

America is not the only country which has managed very well down the decades without what a British Treasury official would recognise as economic management; Japan and Italy, for example, also have faction-ridden governments, while west German economic misters have made a golden virtue of dullness. But while other successful countries suffer veniality in their politicians, and live with grossly distorting tax systems, few surely subject their economies to such a kaleidoscope of changing distortions.

The late economist Jan Tumlir used to argue that no country with a tax code of some 2,000 pages could properly be called a market economy (since lawyers and accountants define the incentives). That is an exaggeration: the asset markets will largely neutralise such distortions, in time. They never get the time, though, if the book is constantly being re-written. President Reagan introduced two radical tax reforms in eight years. The second largely contradicted the first: incentives were first strengthened, then removed, new loopholes opened and then both old and new closed. That was the main cause of the commercial property boom and bust which now threatens so many banks.

Yet Mr Bush and his advisers are already talking of new loopholes and incentives – a good deal more than a hair of the dog that bit them. At the same time, though, they were leaving undone those things which they ought to have done. Free marketeers who read their Adam Smith know that bankers are the exception to the rule; American banks have been over-regulated, but disastrously under-supervised. President Carter tried to launch an energy policy, and was called a wimp; then oil prices dropped, and the country fell into a sleep which has not been distubred even by recent events.

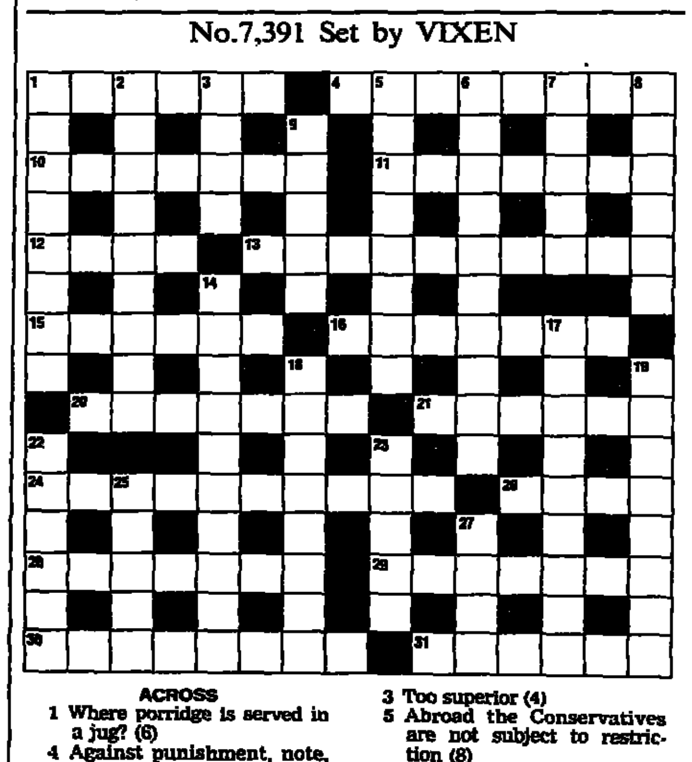
Is serious policy possible in a country which holds elections every other year? History shows that it has been, in national emergencies; it will be for my successor, Michael Prowse, to discover whether this bit of history is about to repeat itself. Perhaps it will have to await a president who knows his own mind, or at least is calm enough to let the hidden hand go on with the good work it has traditionally done in this rich subcontinent.

For this columnist, it is goodbye to Mr Bush, who is living down to the promise he showed as a campaigner; goodbye to Mr Richard Darman, who is justly accused of being too clever by half, to Treasury secretary Nicholas Brady, who is not, and to the new populists in Congress who plague them both. Goodbye to the few academics who try to get voters knowledgeably engaged in our dry subject; goodbye to honest statisticians bound by law to produce meaningless numbers; and goodbye to the tens of thousands of lawyers who restrict them (though some of my best friends are lawyers). And goodbye, regretfully, to you, my readers.

**JOTTER PAD**

## CROSSWORD

No.7,391 Set by VIXEN



**ACROSS**

1 Where porridge is served in a jug? (6)
4 Against punishment, note, in 1 across (8)
10 Hold back on the subject of newsmen (7)
11 They always take the first lady into this (7)
12 Crooked, and so exceptionally wary (4)
13 The idle fellow really has nothing to complain of (10)
15 One following another team? (6)
16 Clear of 14 about the month-end (7)
20 Seemed alarmed, but made a beginning (7)
21 The resident can have an item ordered (6)
24 A person could well be baffled by such tirades (10)
26 The woman in need nags constantly (4)
28 Composing a line to bring delight (7)
29 Clear out with salts – study figure! (7)
30 Get together with the head, all being comme il faut (8)
31 A story a member has to finish (6)

**DOWN**

1 Has some park-seat renovated (8)
2 Tense to a fault? (9)
3 Too superior (4)
5 Abroad the Conservatives are not subject to restriction (8)
6 Where people have a good time with legitimate reason (10)
7 On no account to be read in the obscene version (5)
8 Leave an area troubled by drought (6)
9 Turning so vehicle can get recognition of outstanding performance (5)
14 The pit's economic decline (10)
17 Badly organised, yet imposing (9)
18 Springs back, setting serving men on edge (8)
19 Held up trade maybe when in the red (8)
22 Call for credit to be available in the joint (6)
23 Thought the Left quite the best (5)
25 Like an egg? Love several made a meal of! (5)
27 Raising the Italian agreement, the French give little ground (4)

**The solution to last Saturday's prize puzzle will be published with names of winners on Saturday November 24. We regret that the crossword failed to appear in some issues on Saturday.**





# Full menu at the High Table

**IAN DAVIDSON** on Europe

WE SHOULD have some excitement in the run-up to next week's pan-European CSCE summit jamboree in Paris. The general point of the 34-nation summit is to consecrate the new era of peace and happiness between east and west. But in news terms the high point should be the signature of a treaty designed to make war almost impossible, by cutting conventional forces in Europe; and here is where the excitement comes in.

Trouble is that the negotiations are still wracked by disputes; the French accuse the Russians of trying to cheat over the number of tanks they should cut; and the word is that the text may not be ready in time. Since Messrs Bush and Gorbachev have said they will not come without a treaty, there looms the frightful prospect of a state dinner at Versailles without the two most important guests.

Without wishing to spoil the fun, I can reveal that President François Mitterrand will not after all be forced to re-arrange the place settings for his state dinner. This particular party will constitute the roll-call of all the countries which claim to have a say in the design of Europe's future political architecture, and there is nothing in this world which could keep either President Bush or President Gorbachev away. Therefore, there will be a treaty, even if the text is not completed before Sunday night, even if they have to sign a blank piece of paper on Monday morning.

The way will therefore be open for the 34 leaders to indulge their gaiety at the inauguration of a brave new world, and to deliver three days of high-minded speeches consisting mainly of self-congratulation (in the west) and special pleading (in the east). Before they disperse, they will have agreed to set up a Conflict Prevention Centre, to establish a small permanent secretariat, and to meet again regularly.

As the host, France is understandably anxious to emphasise the deep significance of the party. Mr Roland Dumas, foreign minister, has asserted that the summit will be "the most important international event since 1945", and has predicted that it would "design the architecture of Europe for the end of this century and for the next century".

These vast claims are manifestly over the top. The summit is an important formal event, but mainly as an endorsement of the astonishing sequence of substantive events over the past 18 months or so in the Soviet Union and eastern Europe. Second, the pan-European Summit will obviously not design the future architecture of Europe: that is too grand a task for 34 political leaders in conclave, especially when they are fully occupied in making speeches or eating dinner.

No one yet has a clear idea of the future political architecture of Europe. President Mitterrand peddles the notion of a European confederation, and President Gorbachev canvases the idea of a Common European Home; but since they are careful to avoid explaining their conceptions, they have found no difficulty incorporating both terms in their new Treaty of Friendship and Co-operation.

In any case, the future architecture of Europe will not be designed according to any single or simple blueprint. It will include a clutch of disparate elements, made up of some old institutions and some new; and it will evolve over time in response to events.

But the evolution of a new European architecture is likely to be dominated by two overriding principles. The strong will have more influence than the weak; and institutions which were designed for the Cold War are likely to decline in the post-Cold-War era.

The west will play a more influential role than the east, because it is stronger; western Europe will play a more influential role than the US, because it is European; and eastern Europe will probably play a more influential role than the Soviet Union, partly because it is European, but mainly because the Soviet Union's internal problems look like being much deeper and much longer-lasting.

The second factor is more interesting. Comecon and the Warsaw Pact are going to wither away, because they are identified with the Soviet Union, with the Cold War, and with comprehensive failure; but the same principle may apply, to a lesser extent, to Nato and the Western European Union.

Western leaders pay lip service to the importance of keeping US troops in Europe; but it is not clear that Nato, the basis for the US presence, can survive. It probably cannot be kept going unless it is led by the US, it cannot be led by the US when most US troops are withdrawn, the essential US nuclear guarantee will melt with the departure of US troops, and in peace-time the Europeans will not want to be led by the US.

France and Italy identify the nine nation Western European Union as the basis for a European defence, but it suffers from analogous weaknesses: it has delegated all operational defence to Nato, and therefore rests on assumptions centred on American leadership.

Even the CSCE itself is contaminated, since it is a child of the Cold War, a bargain between strategic stability between east and west and western claims for human rights. East-west stability is now a vanished concept, and the new eastern Europe has emerged from an internal human rights revolution.

Only two western institutions are innocent of the Cold War: the Council of Europe, the law-based adjudicator of human rights and parliamentary democracy; and the European Community, which is steadily growing in political and economic power. These are the institutions which will design the architecture of Europe; not next week's summit.

FINANCIAL TIMES SURVEY

# BUSINESS TRAVEL

Monday November 12 1990

Faced with looming recession and the uncertainties caused by the crisis in the Gulf, companies are seeking better control of their business travel costs. Airlines and hotel chains are adapting services to reflect this changing market. **David Churchill** investigates

## Cost control is the key

BUSINESS TRAVEL management is now the key issue dominating the way in which companies regard sending their executives out of the office to do business. This has been forced on the corporate sector by the onset of recession, the economic uncertainties posed by the Gulf crisis and the increase in oil prices.

"After the heady days of the sustained economic growth of the 1980s, companies are now facing up to the need for better travel management in the reality of the 1990s", points out Mr John Donaldson, chief operating officer of the Thomas Cook travel group in the UK.

However, companies are not yet wielding the axe to all forms of business travel expenditure.

"It's not all bad news", insists Mr Nigel Robinson, managing director of Pickfords Business Travel. "The volume of bookings for business travel remains at a good level, but we have seen a definite emphasis on companies looking for ways of controlling spending rather than simply cutting it back."

An estimated £22bn is spent on business travel and associated areas by UK companies alone. Worldwide, the figure is at least ten times that.

Expenditure by UK companies is also significantly larger than many other areas of corporate spending, but, because of its fragmented nature, it is subject to far less control.

American Express, for example, says that its experience with helping companies manage travel arrangements suggests that savings of at least 10 per cent are possible through controlling costs.

"The key to successfully managing business travel is information – including how much is being spent, by whom and on what", says Mr John Petersen, general manager of travel management services for American Express. "Trying to manage a company's business travel spend without information is like trying to fly a plane without radar."

Companies have shown greater interest in travel management over the past five years, he adds. When Amex began surveying corporate travel policies five years ago, only one in every ten companies employed a designated travel manager. Now Amex says the proportion has risen to four in every ten.

But many 'travel managers' are often secretaries, who book travel in addition to their other duties. Amex found that nearly seven out of every ten companies leave travel arrangements to secretaries – yet few are trained in travel management.

The need for training is all the more acute given the growing complexity of business travel, with a maze of pricing structures and computer reservation systems.

In spite of the uncertainty caused by recession and events in the Gulf, the longer-term demand for business travel seems assured, even if growth may not be as rapid as in the past decade.

Spurring on such growth will be factors such as the coming single European market. Hotels and airlines believe that this will bring a new strategic awareness of the importance of Europe – rivalling the US in terms of size of market and influence. This is reflected in the jockeying by US carriers, such as United and American Airlines, seeking new North Atlantic air routes and linking up with European airlines.

International hotel chains are also targetting Europe. Inter-continental Hotels, for example, is relocating its headquarters from New Jersey to London. The up-market US Hyatt and Conrad groups are developing several new hotels in Europe – Hyatt has recently opened hotels in Birmingham and Belgrade.

Japanese investors are also keen on Europe – while the Adachi Enterprises Group of Tokyo has put £300m into a joint venture with Marriott, the US chain, to develop up to nine European hotels.

The opening up of eastern European adds to Europe's attractions. The problem, however, will be to provide the infrastructure to meet business travellers' needs.

Bureaucratic red tape, for example, is still the norm in eastern Europe, making it difficult for western hoteliers to develop new hotels.

Eastern Europe is not the only new market spurring business travel; the developing Pacific Rim is an important destination, reflected in the growth of air services to the Far East by the major carriers.

The importance of the travelling executive to airlines and hotels – and related areas such as car rental, railways and restaurants – cannot be underrated. About 60 per cent of occupancy in de-luxe international hotels is taken up by business travellers. Airlines also depend heavily on full-fare paying passengers. It has been calculated that a full load of business class passengers on the London-New York route makes a flight profitable even if the other cabins are empty.

Not surprisingly, the business traveller is now the prime target for the marketing efforts of airline and hoteliers. British Airways, for example, spent £25m two years ago revamping its Business Class products and £10m was spent last year on First Class. BA also recognises the needs of the full-fare paying business traveller flying in Economy Class and is experimenting with a separate cabin on some routes. But the £15m being spent on improving its Economy Class service, announced earlier this month, could take some business away from its Club Class passengers seeking to cut costs.

"We have seen a definite trend towards downgrading in air travel this year", reports Mr Robinson from Pickfords. "We see a need for air carriers to offer alternatives – a mid-way between business and economy class – giving customers a good service at a more reasonable price."

However, winning the custom of business travellers in the 1990s is likely to centre on ways of giving them more control, recognising their status and relieving stress.

Surveys show that frequent business travellers often find travelling stressful; the more they do, the more stressful they become. "Travellers relinquish office status for anonymity among the mass of other business travellers", concluded a survey of 700 travellers carried out by Hyatt Hotels.

Developments in tecnology will help give executives greater control. "In-flight faxes – to add to the in-flight telephones already available – and computer maps in hire cars . . . will help give the executive more control over his travel", points out Mr Tom Nutley of the World Travel Market exhibition, which opens in London this month.

New computer technology will be an important factor in business travel in the 1990s. Thomas Cook's Mr John Donaldson believes that computer reservation systems (CRS) "will probably be the single most significant development within the industry in the 1990s. Companies that know how to get the best out of CRS will ultimately dominate the industry."

Other technological developments include that being used by reservation group Utel International. Its reservationagents can call up – using laser disc technology – an actual view of most of the 6,500 hotels for which it acts.

Technology, however, may also reduce the need for business travel. Video conferencing is growing in use and sophistication – yet many executives insist that personal meetings are more effective than television links. If that is true, then the future growth of business travel seems assured.

Glyn Genin

**Aircraft of the UK's second largest carrier, Air Europe, at Gatwick: competition for North Atlantic routes is intense.**

### IN THIS SURVEY



*Editorial Production:*
*Andrew Slade*
*Phillip Halliday*

How far can business class develop? **David Churchill** reports

# Airlines woo frequent flyers

JUST HOW far can airline business class services develop in the 1990s? A decade ago, the space, service and general attention to detail in business class cabins would have seemed too good even for first class passengers; now, with regular business flyers used to the airlines' wooing them on board, the facilities are often taken for granted.

The problem facing the airlines is made more acute by many business travellers' (or more often their travel departments') questioning the need for business class travel at all. Even before the hike caused by the Gulf crisis, fares had already risen steeply in recent years: for example, a Virgin Atlantic Upper Class ticket between London and New York cost about £1,000 in early 1987, but is nearer £2,000 now.

The difference is more marked because economy class fares on transatlantic routes have stayed virtually static.

## Even before the Gulf crisis, fares had risen steeply

The pressure on companies to cut costs makes economy class travel look financially very attractive; pressure exacerbated by British Airways' planned relaunch early next year of its economy cabin services to give better value for money.

BA has already experienced the downside of improving in-flight facilities in certain sections. When it relaunched its Club World service two years ago, the service was regarded as so good by some business travellers that they downgraded from First to Club. The balance was restored last year by improvements to BA's First Class service.

For BA and other airlines, internal office politics is likely to keep most frequent travellers in business class: "After all, we have to work on board and arrive fresh!" is a hard argument for office accountants to beat.

But which airline to choose? Competition to attract the business traveller is intense and services are continually being upgraded. Air France, for example, has relaunched its business service with larger and fewer seats in business class; Lufthansa, on the other hand, is increasing the number of check-in points for travellers – it now has some 10 hotel check-in counters in Europe and two in Manhattan, with more planned.

Choice, however, differs between executives and countries, making it more difficult for the airlines to meet executives' needs in all cases. BA, which carries out extensive research into passenger needs, decided to split its business class into two sectors: long haul with Club World and short-haul with Club Europe.

The overriding strategy behind its Club services is to give the business passenger not only a better service but greater recognition. Club World offers a fixed cabin space to divide those passengers paying a higher fare from economy; passengers are addressed by the cabin crew by name; and there is priority disembarkation and baggage reclaim. Sir Colin Marshall, BA's chief executive, described the new service as "a new mark of respect for business travellers."

BA's Club Europe was based on the concept of saving business travellers both time and trouble when on short-haul European flights, rather than making the actual in-flight service too luxurious. Services such as valet parking for travellers to Paris, Amsterdam and Athens have therefore been introduced at Heathrow's terminal four.

The airlines compete on several factors for business passengers. Space is one of the main weapons used, giving the passenger either more leg-room, seat-width, or both. More important to some travellers, however, is the seating combination across the cabin: most executives dislike being stuck in the middle seat of a 2-3-2 configuration.

The boredom of long flights means that some travellers choose an airline on the quality of food, although the standard of most airline cartering is not high. American Airlines recently came top in a "blind" tasting carried out by Business Traveller magazine.

Routes are often the decisive factor. Many travellers have been caught out, for example, when flying to the US by having to wait several hours for a connection at one of the US 'hubs' – the cities into which international flights fly for connection to US domestic air services. BA, on the other hand, has been picking up business to the west coast of the US with its direct flight to San Diego: other international flights require travellers to change at a 'hub' airport.

The key question for business travellers, however, remains the way in which airlines can develop business class service. Developments in technology which allow executives to stay in touch during their flight clearly have a role to play.

## Some travellers choose airlines on the quality of food

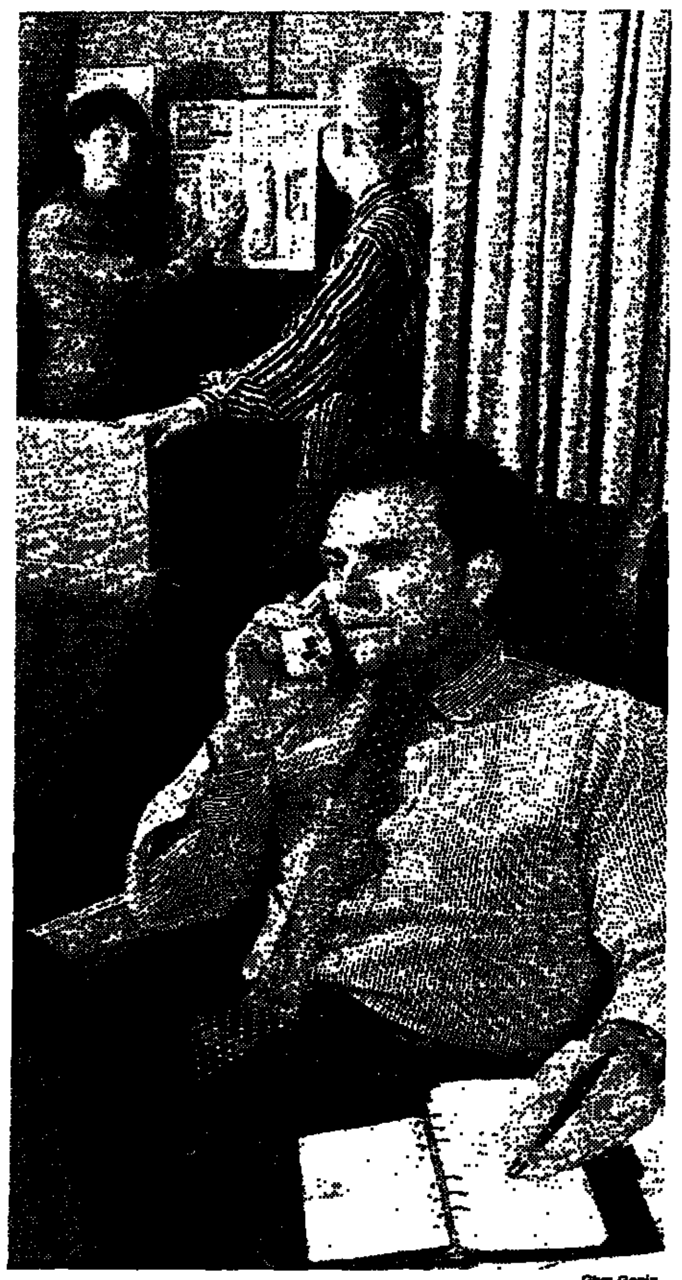
In-flight telephones, for example, are already offered on an experimental basis on a number of flights for out-going calls; better satellite links will improve the service and allow in-coming calls. In-flight fax, copying and computingfacilities are also planned.

While individual video screens are already provided on some services, airlines may soon be able to screen terrestrial television output on flights, via satellite links.

One area of change being considered is whether to follow Virgin Atlantic and do away with a first class service in favour of upgrading business class, especially in terms of the space allowed for passengers.

But many airlines are prevented from adopting this policy by the perceived loss of prestige and the loss of revenue from abolishing first-class seats at the front of the aircraft, which typically cost twice as much as business class fares.

Perhaps the most significant advances in business class services will come not in the air, but on the ground. The airline that can offer business executives a better way of getting to the airport and checking-in will set the pace for business air travel in the 1990s.



Glyn Genin

In the air, but not out of touch: in-flight telephones are already offered on some services

## AIR TRAVEL

# Competition intensifies

THE SHARP increase in aviation fuel prices coupled with the slowdown in economic growth has made the already intense competition between the world's leading airlines even more competitive.

The changing shape of international air travel as a result of these pressures is amply demonstrated by United Airlines' ambitious bid to take over Pan Am's transatlantic air routes.

The move, if successful, would give British Airways probably its most effective competition on the lucrative North Atlantic air route. This would be ironic, given that United is BA's marketing partner in the US, providing the internal US connections from its various hub airports.

BA itself is seeking to strengthen its position in the world airline stakes with a joint bid (with KLM of the Netherlands) to take a 20 per cent stake in Sabena World Airlines.

The battle for business travellers flying the North Atlantic, however, is where most interest is focused at present. More than a dozen airlines compete for the business travel market, with a bewildering array of prices, special offers and improved business class facilities.

BA is the dominant British carrier, with an estimated 42 per cent of transatlantic traffic, flying to 10 North American gateways or hubs from four UK airports. Virgin Atlantic is the only other scheduled British carrier operating across the North Atlantic and its "Upper Class" cabin for the business traveller has won a clutch of awards.

As well as United, American Airlines is seen as ambitious to strengthen its transatlantic routes. It has also expressed an interest in buying Pan Am's routes and has held talks with both Continental and TWA about taking over some of theirroutes.

In terms of business class cabins, most frequent transatlantic flyers currently rate (according to various business travel surveys) BA and Virgin Atlantic as offering the best service. The US carriers, with the exception of Delta Airlines, has yet to catch up with the standards set by both those British airlines. Delta, for example, offers a 43 inch seat pitch, compared with 38 inch for TWA, Pan Am and Continental, and 37 inches for American.

By comparison with the North Atlantic routes, competition for flyers to south-east Asia and the Pacific Rim countries is relatively sedate. Service is the key marketing weapon, and it is here that airlines such as Cathay Pacific and Singapore have established enviable reputations.

Cathay's redesigned Marco Polo business class, with seven-abreast seat configuration (instead of eight) and larger seats, has won several awards for its service. It has also recently extended its telephone check-in service to Gatwick, from the trial operation started in Hong Kong last year. The system enables First and Marco Polo Cabin passengers with hand baggage only to check-in by telephone, thus enabling them to arrive at the airport just 30 minutes before departure.

Cathay's main problem at present is getting enough flights out of Gatwick, so it is planning to expand its services via UK regional airports.

In Europe, the main thrust of changes centre around the 1982 deregulation of European Community frontiers, which could pave the way for greater liberalisation of cross-European air routes.

For the business traveller, this should not only mean greater choice from more competition but also holds out the prospect of cheaper fares. Yet lower prices are by no means certain as some estimates suggest that other changes to EC air transport policy could see prices rise sharply. European air fares have already risen by an average of 11 per cent over the past two years, with some routes – such as London to Paris – rising by even more.

Not surprisingly, many business travellers are more than-willing to fly economy class on short-haul European routes rather than pay substantially more for business class.

Where competition is probably fiercest of all, however, is on the UK domestic services. BA, which so dominated domestic routes that its Shuttle service has become established as the generic name for domestic air travel, has increasingly faced stiff competition in recent years. Rivals who have developed their own niches in the UK market include British Midland, Air UK, and Dan Air.

BA still has the major share of UK routes, helped by the relaunch last year of its Shuttle services to improve in-flight catering and a faster check-in service for business travellers.

**David Churchill**

## BUSINESS CITIES: Hong Kong

# Low-cost selection

BUSINESS travellers to Hong Kong are still able to enjoy the benefits of perhaps the widest selection of luxury-class hotels of any city in the world, combined with some of the lowest prices for such top quality lodgings.

The aftermath of the events in Tiananmen Square last year may have begun to fade in the memory of both business and leisure visitors to the colony, with visitor numbers recovering to pre-crisis levels.

But the impact of the sharp fall in incoming numbers unfortunately – for Hong Kong's hotel industry – coincided with a substantial increase in the number of hotel rooms coming on stream. Ten new hotels opened last year, adding some 4,500 rooms, with about a dozen hotels opening this year. This will bring total hotel room numbers up to around 32,000 – double the level of a decade ago. At the same time, established hotels have been busy refurbishing to offer an enhanced service for their regular guests.

Inevitably, as in any market, when supply exceeds demand the result is falling prices. Hong Kong hotel prices came down by approaching a third on average, although more established hotels such as the Mandarin Oriental were less willing to discount room tariffs than some of the newer competition.

The Mandarin, regularly voted among the top hotels in the world for business travellers, is in a rather unprepossessing building on Hong Kong island, which houses the financial district. The Mandarin, however, remains the favourite of top executives because of its high service level: it has one of the highest staff to guest ratios among Hong Kong hotels.

But even the Mandarin has come under pressure over to take on small conference groups, albeit usually of director-level delegates. It also has marketed itself towards incentive organisers as representing the ultimate reward in hotel destinations.

Much of the new hotel development in Hong Kong has been taking place on Hong Kong island, especially as a consequence of the new convention and exhibition centre which opened in the Wanchai district in 1988. This offers two 9,000m² exhibition halls and conference space for up to 2,600 delegates.

Glyn Genin

Twenty flights up: the Executive Lounge on the 20th floor of the Hong Kong Hilton

On top of the convention centre are two of the newest hotels: the Grand Hyatt and the New World Harbour View. Also recently opened is the Conrad, part of the US Hilton group (not to be confused with Hilton International). The Grand Hyatt has one of the hottest night-spots in town, called JJs.

What makes Hong Kong such a favourite with business travellers from all parts of the world is the sheer buzz and excitement of the city. It also is a shoppers' paradise: virtually anything can be bought among the myriad of shops of Kowloon. On Hong Kong Island itself, all the world's top fashion designers have outlets. And there are always the famous tailors who will run you up a made-to-measure suit in a day.

The key issue facing the island is obviously what will happen after 1997, when Hong Kong is handed back to China. Perhaps the strongest sign, however, of the optimism that exists in the future after 1997 is in the development plans for more hotels and conference facilities in the mid-1990s and beyond. Hong Kong is the sort of place where money is the clearest indicator of public sentiment.

**DC**

## BUSINESS CITIES: Moscow

# Slow improvement

Tony Andrews

Crossed line: one of the main challenges in the Soviet capital is the telephone system

AS THE Soviet Union inches towards a market economy, Moscow is attracting all kinds of services which make life in the Soviet capital less difficult for business visitors.

Passport photographs and printing services can be obtained at Alphagraphics in Gorky Street – the city's main street, recently restored to its pre-revolutionary name of Tverskaya. Service at Pizza Hut in takes around 15 minutes. And American Express's Moscow office will supply currency for cardholders(Soviet banks will only give you roubles).

The key to virtually all of these *facilities* is foreign currency. With roubles, visitors will be confined to a swim in the heated outdoor Moskva swimming pool or a meal at McDonald's.

While orders have probably been issued so that customs officers at Sheremetievo airport make the first encounter with Soviet bureaucracy relatively painless, polite and helpful employees are still a rarity.

Once in Moscow, the main challenge will be getting hold of people on the telephone. A person's direct number, be it in their hotel room or office, is essential, since switchboards are unknown to most Soviet institutions. A favourite pastime in Soviet offices is a form of "pass the parcel" which involves sending a caller from one telephone number to another.

Although international telegrams are easily sent from the central post office on Tverskaya Street, do not bother with the postal service – letters can take a month or more to reach western Europe. *However, courier firms such as* DHL have offices in Moscow.

Information Moscow, listing numbers for restaurants, hotels, embassies, foreign companies and major Soviet institutions, is basic required reading. But for the telephone numbers for every ministry in Moscow, something closer to a telephone book – Vaya Moskva – has appeared in the last few months, and is available in Berioska foreign currency shops.

Moscow Magazine, a kind of 'what's on' guide published in English once a month, is good for details of restaurants, shows, museums, and sports facilities. It also publishes lively, intelligent feature articles about Moscow and Soviet life. It is on sale in hotels, some street kiosks and foreign currency supermarkets such as Stockmanns and Sadko.

Organising anything from a meal in a restaurant to a business meeting requires advance planning, with a few exceptions. Hotels can arrange sightseeing tours but will sometimes require 24 hours notice. Banks in hotels may be closed, even though the the signs say they are open.

For Russian cuisine at, say, the Kropotkinskaya – the capital's first and possibly finest co-operative restaurant – or any other foreign currency restaurant, it is safe to book a few hours in advance. Moscow now has a whole range of restaurants which charge hard currency – they are either co-operatives or joint ventures with foreign partners, such as the Delhi, an Indian restaurant which offers ethnic dancing shows in the evening. Another place which provides a floor show is a very expensive, but excellent French restaurant in the Mezhdunarodnaya Hotel.

When McDonald's doubled its prices last month, the queues disappeared for a few weeks only to resurface with a vengeance (although the queues move quite quickly, the best time to try for a queue-free Big Mac is at around 10.30am). Pizza Hut, another western oasis which set up shop in September on Kutuzovsky Prospect and Gorky Street, is one of the few foreign currency restaurants where a table can be had on the spot (the rouble section is desperately packed). Employees have been taught parrot-style to say things like "My name is Valery and I'm your waiter today".

But however western such places may appear, be prepared for a Soviet-style catch in many situations. An attempt to use brand new telephone booths in the Mezhdunarodnaya Hotel – with direct dialing to the west – failed when this correspondent was told that the hotel had run out of special telephone cards.

Travel within the Soviet Union is no longer restricted to the official travel agent, Intourist. Alternatives include Aerotour, a Soviet-Cypriot joint venture, where the local employees actually smile and offer customers a seat while they wait. They book hotels in Moscow and Leningrad and sell aircraft tickets for hard currency to any destination in the Soviet Union, but it is up to the traveller to arrange his/her visa.

Be warned, however: on a busy day, the office will resort to Soviet habits such as not picking up the telephone.

The Ukraine Hotel once rented Soviet cars for roubles, but now charges dollars. A Japanese-Soviet joint venture offers Nissan cars while another venture – Rozec – will lay on chauffered cars to the airport at 5am. Most hotels can help with finding interpreters.

Taxi-drivers, who can spot a foreigner a mile away, will usually demand foreign currency or western cigarettes, although they can be persuaded to take roubles by Russian-speaking westerners.

For medical needs, visitors now have a choice of western medical centres which can offer treatment and sell imported drugs on the spot.

Recent changes in currency regulations do not affect the tourist rate offered to visitors, so it is still neither worthwhile nor safe to use the black market.

**Leyla Boulton**

## Conference and incentive travel

# Recession worries

CONFERENCE and incentive travel has been one of the cornerstones of business travel over the past decade: an estimated one in four executives travelling are thought to be involved in travel to a meeting or as an incentive. Hence the concern over how far the recession will hit this market.

Mr David Hackett, chairman of The Marketing Organisation, says: "There is some contraction in the market. In particular, the size of incentive travel groups is smaller, with the economic situation making it more difficult for salesmen to meet qualifying targets."

**'There is some contraction in the market'**

He reports that more than 200 groups have been taken abroad this year, some 25 per cent more than in 1989.

Thomas Cook's conference subsidiary Compass also believes that the market will stay relatively buoyant, even in difficult economic conditions. "We are finding that companies, in an effort to increase motivation, are spending more on incentive travel for their staff, clients and agents", says Mr Ian Sparks, Compass's sales director.

Expenditure by UK companies on conference and incentive travel is estimated at nearly £2bn per year, although exact figures are difficult to calculate because of the diverse nature of the industry.

European destinations are still the most popular with companies because of the shorter travelling time. Paris remains the most popular conference and incentive venue.

However, long-haul destinations, especially to Florida, are growing in popularity. Abbey Life recently flew 1,200 delegates to Orlando for a convention; it was the biggest one-day corporate group travel movement *from any UK airport.*

About one in every ten visitors to the Florida city is on a conference trip, says the Orlando Tourism and Convention Bureau. Obviously, the key attraction is Walt Disney World, which has started to attract a growing number of conferences, helped by the opening of two new conference hotels, the Swan and the Dolphin. Japanese car manufacturer Toyota recently took a group to the Swan, which is managed by the Westin hotel company. Westin operates a scheme called the Golden Gavel which gives conference and incentive guests priority and extra help when needed.

**Abbey Life flew 1,200 delegates to Orlando, Florida**

Most conference and incentive trips are undertaken by small groups: one recent survey of larger companies found that six out of ten groups involved only up to 50 travellers, with only one in every ten involving more than 150.

Some 80 per cent of trips were to four- or five-star hotels, with six out of every ten companies using tourist-class flights. Car manufacturers used incentive travel most, according to the consultants, followed by pharmaceutical producers, financial services companies and consumer goods businesses.

Some travel trips involve considerable imagination. Mr Hackett says that theme parties can be based on virtually any subject; recent ones that his company has organised include those around the themes of Dickensian Christmas, Wild West and Hi-de-Hi holiday camps.

**David Churchill**

## BUSINESS CITIES: London

# Unlikely favourite

TO MOST Londoners it hardly seems credible that the UK's capital could be voted – for the second year running – as *the favourite business city for* international readers of a leading business travel magazine.

How could anyone prefer London to Singapore, Hong Kong or Paris (the next three favoured cities in the Business Traveller magazine poll)?

Probably for the simple reason that while London may seem drab and dirty to Londoners, it offers the international business traveller a range of other attractions that few cities can match.

The heritage and culture, for example, are often cited by conference organisers as among the most important reasons for holding large-scale international meetings in London.

What brings many business travellers to London, according to various surveys, is often a meeting, convention, or incentive trip. London, however, is not well served with meeting facilities.

The Earls Court and Olympia complex has London's biggest exhibition halls with attached conference facilities; an expensive facelift has improved the facilities considerably and a new 17,000 square metre exhibition hall comes on stream in January.

But these halls, like others in London, are often compared unfavourably by business travellers with the purpose-built, modern facilities on offer in many continental capitals.

Some attempts have been made to provide modern conference facilities: the Queen Elizabeth II conference centre opposite the Houses of Parliament, for example, provides just the sort of prestige, large-scale meetings facilities that London so badly needs. But asking an international visitor to travel across London from Heathrow to penetrate the docklands *infrastructure* in search of the London Arena for a conference or exhibition is hardly likely to encourage a frame of mind conducive to doing business.

London's hoteliers are putting on a brave public face about the drop in traffic, although in private they are concerned that a slide into a world recession will mean a further drop in guests.

A sign of the pressure on hoteliers came in a recent survey from Expotel Executive Travel, a hotel reservations agency, which found that London's five-star hotels this year could not even match inflation when they increased tariffs. Expotel found that the price for a single room, including breakfast, was an average £179 per night: this represented a rise of only 2.6 per cent on last year.

In contrast, three and four star hotels have kept up with inflation, pushing prices up faster this year, at around 9 per cent. Out-of-London prices have risen faster than inflation.

London has some of the world's best hotels at the top end of the market but not enough mid-price and budget accommodation for the cost-conscious business traveller. The Savoy Group has probably the best clutch of luxury hotels – Claridges, the Connaught, Berkeley, and the Savoy itself – while the top occupancy rate is said to be achieved by the Four Seasons Inn on the Park.

The refurbished Dorchester Hotel re-opens this month and next year sees the opening of the Langham Hilton hotel just off Oxford Circus. The new Conrad Hotel in the Chelsea Harbour complex is the first all-suite hotel in the UK, offering business travellers effectively two rooms for the price of one.

Restaurants have been more obviously hit by the onset of economic slowdown. Business restaurants are said to be attracting up to a fifth fewer customers than this time last year.

However, the top business *restaurants report* little change. For smart central London dining, the two favourites remain Orso in Wellington Street, Covent Garden, and the Caprice just behind the Ritz hotel off Piccadilly.

Hotel restaurants are always a safe, if uninspiring, bet for the business traveller who requires extra discretion and is prepared to pay for it.

The Savoy Grill is a top favourite with many power brokers, although the Upstairs Bar at the Savoy shares the same chef and is cheaper for lunch.

Nightclubs are a problem for business travel visitors. Most of the top ones, such as Annabel's in Berkeley Square, admit members only. Other members-only clubs, such as Stringfellow's in St Martin's Lane, are more liberal in their door-policy, although they will be more down-market in their appeal.

For many business travellers the appeal of staying in London encompasses its opera and ballet (the Royal Opera House is expensive but impressive for clients, even if the seating arrangements leave much to be desired) and its theatre.

Yet perhaps a sign of the tougher times for Londoners in general has been the lack of new musical blockbusters this year: Miss Saigon and Phantom of the Opera are still the most popular shows for business executives and tourists alike, with few theatre producers apparently willing to risk the substantial investment needed on new shows of a similar nature.

**David Churchill**

BUSINESS TRAVEL 4

## Jet lag and its remedies

# Bland diets, studs and acupuncture

SIR FRANCIS Chichester, the famous sailor, was seasick for a day each time he put to sea. His son Giles, publisher and aspirant politician, inherited the same problem but says that it never impeded his love of sailing.

But a friend I took for a drink on one of the floating restaurants moored along the Embankment in London asked to go ashore within minutes. Her stomach rebelled against the gentle motion of the incoming tide in the Thames.

I consulted Mayfair pharmacy John Bell & Croyden, flagship of the Macarthy chain of chemists. What nostrums did they recommend for the business traveller of the 1990s? I asked Mr Arvind Gautama, the pharmacist who manages this £1m-plus business.

Many people confuse travel sickness and jet lag, says Mr Gautama. Travel sickness is a direct response to an unfamiliar motion, which ceases when the motion stops, whereas jet

**Many confuse travel sickness and jet lag**

lag is the depression and sleep disturbance than can follow long distance air travel. Often what is called jet-lag is no more than the weariness that comes from the general hassle and constant vibration associated with most modern travel.

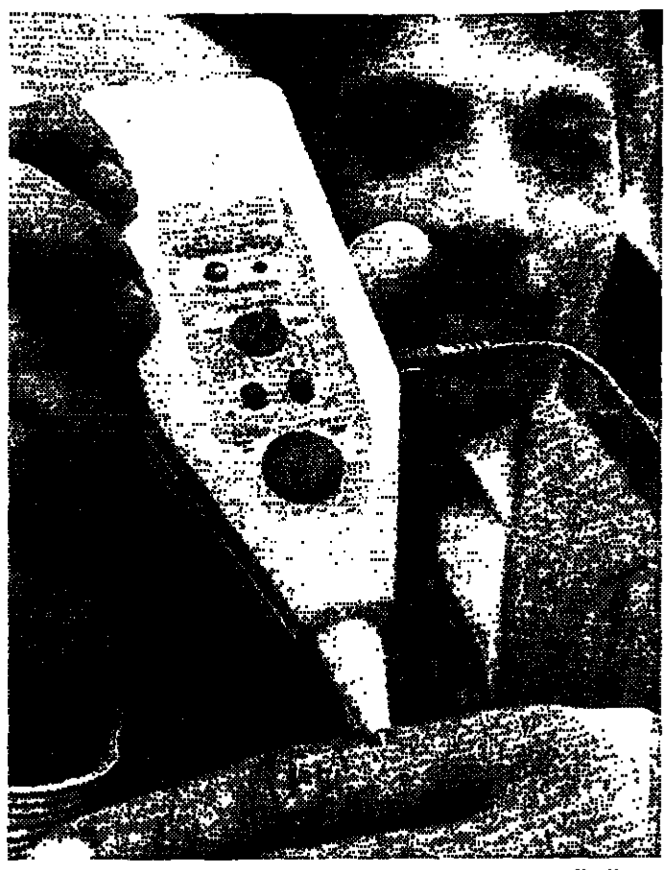
For travel sickness, there are a variety of over-the-counter medicines – pills for travel sickness, such as Kwells, Stugeron and Dramamine ("an old friend, used for many years"). The pharmacist will advise the customer on the basis of such factors as age and whether drowsiness could be a problem. These three preparations, incidentally, are designed for all the family, although children under four years old need special medical advice.

The latest travel sickness preparation is available only on prescription. Scopoderm TTS comes in a transdermal patch, the technology Ciba-Geigy has developed for leaking medicines steadily through the skin and into the bloodstream, so maintaining the patient at a constant dose level.

In this case the patch is stuck behind the ear. The medicine is hyoscine, the alkaloid from hyoscyamus (henbane) used in Kwells, and also used to induce "twilight sleep". One obvious advantage for the bad traveller is that, if they are sick, there is no danger of them throwing up a partly dissolved pill and depriving themselves of further medicine. The sachet continues to drip-feed for 72 hours.

Mr Gautama also sells non-medicinal prophylactics against travel sickness. The Sea-Band, for example, is said to provide effective nausea control against all forms of motion sickness, without inducing drowsiness or other side-effects. Parents like it for children, to avoid giving them drugs. Sea-Band is simply a pair of elasticated bracelets worn round each wrist, with plastic studs that press gently on the Nei-Kuan point (mid-wrist, about three finger-widths from the hand). It comes into action within five minutes and lasts as long as it is worn, the makers claim.

Sea-Band costs £6.50 a pair from John Bell & Croyden and can be washed and used repeatedly. But the traveller who is in the mood to spend more on the same principle of nausea control may be tempted by an Australian instrument that Mr Gautama introduced last year.



Alan Harper

**Shock treatment: Arvind Gautama of John Bell and Croyden with the AcuHealth electronic acupuncture instrument**

AcuHealth is an electronic version of acupuncture, designed to be self-administered for the relief of many minor illnesses, pains and discomforts. It comes in a pack about the size of a hardcover novel, containing the battery-powered instrument and a 144-page guide book on treating dozens of ailments from arthritis to warts. More specifically for travellers, it is recommended for nausea, headache, migraine, swollen legs, aching legs, restless legs, hangover and bags-under-the-eyes. At this pharmacy it costs £149.95.

AcuHealth has nothing to do with needles. The hand-held device has a slender metal probe which is pressed against the skin in designated places, but never penetrates. It first locates places of low electrical resistance, then is held on these spots for a few moments – "at least 20 seconds" – while a minuscule current flows into the skin. The circuit is completed by pressing a thumb against a contact plate on the device. Treatment is recommended up to three times a day, lasting as long as people "feel it helps".

For travellers worried about nausea and sea-sickness the point for treatment appears to be the one in the wrist used by the Sea-Band, designated P6. Most kinds of nausea respond, as does stress, it is claimed. But for some unexplained reason people are advised not to use this point in the fourth month of pregnancy, but instead to try other points on the hand and leg, and beneath the rib cage. (This last point is used to relieve wind and digestive troubles.)

AcuHealth is recommended for jet lag. It offers five points for treatment – on the back of the hand and wrist, on the elbow, the knee and the top of the head. The makers advise treatment several times during a flight and for a day or two after.

Jet lag is not a medical syndrome. It is not identified by the latest edition of Blacks' Medical Dictionary. Nevertheless, some people suffer distress of various kinds before, during or after a flight. One way of alleviating the problems is to sniff a few drops of a fragrant oil, says Ms Frances Clifford who runs the Bodytreats Clinic, one of the pharmacy's specialist consultancies.

For £30 she will provide, by appointment, an hour's consultancy leading to a prescribed mixture of oils – lavender to "bring people back down" from

**A few drops of fragrant oils can ease the problem**

a state of euphoria, rosemary or basil to dispel sluggishness, orange blossom to overcome fear and peppermint oil or ginger for nausea. Her oils can be sniffed from a tissue or inhaled from a handbasin in flight.

In contrast, in 1982, Argonne National Laboratory, a US government research centre, published the Argonne Anti-Jet Lag Diet to help travellers (and shiftworkers) adjust to disturbances of the biological clock. It was developed by Dr Charles Ehret from studies into the biological rhythms of animals. His diet involves a feast-fast-feast-fast cycle lasting four days. Some might say the treatment simply exacerbates the problem.

**David Fishlock**

## Lucia van der Post looks at gadgets for travellers

# Spoiled for choice

ONCE, the smartest gadgets that executives on the move required were a sharp briefcase, a clean shirt, toiletries and an alarm clock.

Now, they are spoiled for choice; the gadget-minded could easily fill the briefcase with high technology toys, leaving little room for some tempting aftershave, a clean shirt and a good read.

The biggest problem is likely to be one of choice. The best advice is to think carefully before buying – carrying something too complicated or technical can be a waste of space.

However, miniaturisation is the name of the game. Shaving brushes, computers, radios; all come smaller, neater and lighter than before.

Some executives get by with little more than a shaving kit, clean clothes and an address book and pen but those who are fully at home in our growing hi-tech world can have lots of fun.

The jet-lag computer at £79.95 could hardly be said to be vital. But if jet-lag is a problem, the executive who travels across time bands can punch in departure times, arrival times and hours in the air and receive a programme of how to organise hours to keep jet-lag to a minimum.

When it comes to electronic diaries the chief contenders seem to be the Psion's Organiser and Sharp's IQ.

For somewhere between £100 and £200 they store a lot of information in a small pack. Sharp's IQ is for those who love computing and who relish every complexity as yet another challenge. It is not a doddle to use, but it could save carrying rafts of paper and it can be used as an electronic personal organiser to store personal data such as addresses, telephone numbers, diaries and reminders.

Microwriter's Agenda is about the size of a personal organiser (about 10in by 4in) and besides all the other functions it has a word-processing possibilities.

Those who feel insecure when separated from their PCs can be reassured that models are getting smaller and smaller.

Early laptops were more like lapstones than true portables but these days there are no excuses for busy executives to be far from a computer – what we're talking about are literally palm tops.

The Poquet computer weighs less than 2 kg, fits into any pocket and is fully PC compatible so that the most popular software such as Lotus 1-2-3 and WordPerfect can all be used with it. If that all sounds too good to be true, it is – the keys are a bit too small to be readily used by large fingers but more finely-boned executives will find them a little easier to manoeuvre.

There is another snag – its price. At £2,000 a time, only the really hard-pressed will think it worth their while. Nonetheless, it is an important harbinger of things to come.

**Think before you buy – something too technical is a waste of space**

The executive with a mini portable computer might like a small, light printer to go with it. Kodak's Diconix printer is the smallest (5 cms high by 16½ cms deep by 27½ cms wide) and lightest (1.4 kg without batteries, 1.7 kg with) and can be used with any DOS (disc operated system computer). There is a version that links with a Macintosh. It is available only from computer dealers at about £350.

Authentics at 42 Shelton Street, London WC3 is the kind of shop the matt-black hi-tech set would love. There they can browse and dream, sure that nothing that isn't beautiful crosses the threshold.

Here is the place for a state of the art calculator, the Columbia Tronic, which is deemed so finely designed that it is on permanent display in the Museum of Modern Art in New York and London's Design Museum at Butler's Wharf.

The calculator comes tucked up in a leather pouch at a price of £39.95. It is easy to use, has a full memory function and runs on batteries. It measures just 5¼in by 4in by ¼in thick. The Inflight Comfort Kit is not essential but is fun, and could make a good present. For £29.95, harrassed executives can pamper themselves, when they finally reach their destination, with a rehydration gel made with a natural flower fragrance with plant extract; a mouth rinse, a nasal and sinus freshener; and an oil-based exercise rub and cooling eye compresses.

Many a captain of industry has found that an inflatable neck comforter has eased a night's sleep on a long flight – it costs very little (about £6), is far from pretty but really makes a difference.

Most hotels have efficient alarm call systems but eager executives may need an alarm clock of their own. The Lorus Worldwide Alarm Clock is light and compact (it folds up to fit into a pocket) and will give you the time anywhere in the world.

Harrods sell the Foxtrot, which is about the size of a credit card and weighs practically nothing, for £14.95.

If losing your credit cards is your nightmare, then the Card-Safe could bring you some peace of mind.

It is a slim black box, exclusive to Harrods, fractionally larger than the size of a credit card. The cards are stowed in the Card-Safe and locked with a combination lock. Any attempt to tamper with the locks means the cards are sprayed indelibly with blue ink.

Nothing hi-tech about a desirable briefcase. The nicest, softest, squashiest, most desirable briefcase of all is probably Coach's Wall Street, not cheap at £285 but capacious and beautifully made. If you were just going for a night away it would hold a clean shirt, a small toilet bag and a change of underwear – and it would certainly take the fistful of gadgets that today's properly equipped executive deems part of the essential travelling kit.

When a fully-fledged flight bag fits the bill, then it's hard to beat the Mandarina Duck version – all chic matt black and lightweight fabric, it sells for £174 but it should last forever.



## NEW YORK

# Taming the Big Apple

NO-ONE has yet found a way to tame New York, but with a modicum of caution, the city can be managed and even enjoyed.

The biggest obstacle is the traffic, which can make dashing between meetings a logistical nightmare. If your budget stretches to limousine service, this is the most comfortable way of getting around. Otherwise, consider taking the subway. It is efficient, particularly when travelling uptown or down, although travelling across city is more difficult, since most lines stick to the east or west sides. The fare is a flat $1.15.

As for safety, the subway is probably no more and no less dangerous than the city streets, and the same rules apply: avoid empty carriages; ride at the front with the driver or in the middle with the guard; try not to look conspicuous by looking confused or staring at a map; and do not flash money or jewellery.

Many New Yorkers carry so-called 'mugger money', about $20 in cash, in a separate pocket or wallet, to appease anyone who might point a knife or a gun at them. That said, most New Yorkers have never been mugged or attacked.

A simple precaution is to know the city's streets. In general, New York divides along east/west and uptown/downtown lines. The avenues run fairly straight between the northern and southernmost points of the city (except Broadway, which curves). Avenues are intersected by streets, which run straight between the Hudson and East Rivers.

Most business travellers arrive in New York at one of three airports – La Guardia, Kennedy or Newark. La Guardia, used mainly for short haul, domestic and Canadian flights, is closest to Manhattan and a cab ride should cost no more than $20. International flights usually land at Kennedy or Newark. There is little to choose between the two when it comes to cab fares into Manhattan, which will run to about $40 from either, but Newark is less crowded and confusing, making it a more welcoming port of arrival.

All three have bus services which will run to Grand Central train station on the east side or the Port Authority bus terminal on the west side.

An alternative is the airport's ground transportation counter where, for a fixed price, you can book a place in a shared car or van. Or avoid the traffic altogether and take the Pan Am helicopter, which is complimentary for business class travellers on Pan Am and British Airways.

Hotel rates have remained relatively static in recent years. A number of new hotels have opened in the last year, and competition has made for more bargains. If your visit spans the weekend, most hotels cut their rates sharply.

Old favourites include the Carlyle (774-1600), a largely residential hotel on the Upper East side only steps away from the Frick, Guggenheim and Metropolitan museums. Other top luxury hotels are the Lowell (838-1400), the Mark (744-4300), Peninsula (247-2200), Pierre (838-8000) and the Waldorf-Astoria (355-3000).

The Paramount and Royalton hotels have been recently revamped by Philippe Starck and are part of the city's new, chic places to stay or be seen.

For cheaper accommodation, consider Esplanade (874-5000), the Algonquin (840-6800), the Beverly (753-2700), Morgans (686-0300) and the Empire (265-7400).

New Yorkers love to eat out, and there is a plethora of good restaurants. Most popular are Bice, Four Seasons, La Cote Basque, La Grenouille, Le Bernadin, Le Cirque, Lutece, Petrossian, Quilted Giraffe, Rainbow Room and the Russian Tea Room.

As in other major cities, the best food at the best prices tends to be found in the smaller, local restaurants. In this town of immigrants, authentic Greek, Italian, Chinese, Thai, Burmese, Indian and a host of other foods are available; pick up a copy of Zagat's guide to New York restaurants for amusing, idiosyncratic and fairly reliable recommendations.

**Karen Zagor**

هكذا من الاعلى



EUROPE

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*We Love To Fly And It Shows.*

*Based on consumer complaint statistics compiled by the US Department of Transportation. 

IN LONDON ON 0800 414 767; IN DUBLIN 794744, OUTSIDE DUBLIN, ASK FOR FREEFONE DELTA; IN PARIS (01) 47 68 92 92; IN LYON 78 38 17 59; IN MARSEILLE 91 56 61 08; IN NICE 93 82 24 03; IN TOULOUSE 61 21 13 26; IN BERLIN (030) 882 4881; IN FRANKFURT (069) 668041; IN MUNICH (089) 1299061; IN STUTTGART (0711) 296144; IN ALL OTHER GERMAN CITIES (0130) 2526; IN AMSTERDAM (020) 6010099; IN BRUSSELS (02) 2171717; IN VIENNA (0222) 484 295; IN MILAN (02) 204 1296; IN ROME (06) 4814445, IN LISBON (01) 527845; IN MADRID (91) 248 8130; IN STOCKHOLM (08) 796 9600/9400; IN GENEVA (022) 731 75 10; IN ZURICH (01) 816 4245; IN BOMBAY (022) 244 068; IN KARACHI (051) 510 416.

**David Churchill** assesses the hotel chains and their strategies

# The engine of growth may be in need of a service

BUSINESS travel has been the engine of growth behind the rise in demand for world hotels in recent years – but will it continue to dominate the shape and nature of hotel development in the 1990s?

Most hotel companies, not surprisingly, firmly believe it will. Business travel in all its forms – such as meetings, conventions and incentives – accounts for at least two-thirds of most leading hotel's occupancy rates.

More importantly, the market is less volatile and vulnerable to recession than the leisure sector.

The need for travel to win new business is as important as ever although companies are searching for ways of reducing costs in all departments in the current economic climate.

"Hoteliers will just have to work harder to attract their share of business travel," believes Mr Peter Bates, marketing director of the Savoy Group of hotels.

The slow down of travellers from the US in recent months, for example, has prompted hoteliers such as Mr Bates to concentrate their marketing activities on the UK and Europe.

Moreover, Mr Bernd Chorengel, president of Hyatt International hotels, believes that "the top end of the market is more resistant to economic pressures." But he admits that even at this level senior executives may reduce the number of trips they take rather than trading down in hotel standards.

But the impact of the travelling business executive extends further than luxury hotels such as the Savoy Group and Hyatt at the top end of the market.

The fastest growing sector in the hotel industry in the US and UK (and potentially continental Europe) is the mid-priced or budget hotels.

These, such as Holiday Inn's Garden Court hotels, offer business travellers the same standards of accommodation that they would expect from a top-class business hotel, but without some of the expensive frills such as 24-hour room service or restaurants.

French hotel operator Accor is the prime example of a hotelier which has recognised that travellers – both business and leisure – require specific hotel products. Its niche brands include Sofitel, aimed at the city centre luxury market; Novotel, three-star ventures sited lose to airports or motorways; Ibis, two-star hotels aimed at the family market; and Formule One, very basic accommodation with shared facilities.

### Business travel, in all its forms, accounts for at least two-thirds of most leading hotel's occupancy rates

Mr Jacques Beaucamps, managing director of Novotel in the UK, says: "The formula is very simply to provide a good three-star hotel product with all the key facilities. We are also an alternative to overpriced hotels and are at least 15 to 20 per cent less expensive with an average room rate of £55 per night for a single room."

Accor's expansion into the UK and across the continent is, however, untypical of the hotel industry.

"There is really no such thing as a pan-European market for hotels," insists Mr Rocco Forte, chief executive of Trusthouse Forte, the UK's biggest hotelier. "Rather there are a lot of separate markets, each of which requires the right approach to be successful."

THF's strategy has been to set up joint ventures to develop its Travelodge chain of budget hotels in Spain and Ireland, with other similar deals in the pipeline.

The potential in Europe, especially with the opening up of eastern Europe, has made it an important target area for expansion for most of the leading international chains. Hilton International, Hyatt, Intercontintental, and the Hong Kong-based Regent International group are seeking sites in Europe, especially to take advantage of the growth foreseen after the 1992 liberalisation of trade within the European Community.

Hyatt, for example, has opened hotels in Birmingham and Belgrade. It has several projects coming on stream in Europe over the next few years, including the Hyatt Regency Roissy at Charles de Gaulle airport in 1992.

Hilton International has opened some 25 hotels since it was acquired by the Ladbroke Group three years ago.

"We currently have a further 15 properties under construction and are constantly looking for new sites around the world," said Mr Michael Hirst, Hilton's chief executive. "But we do not intend to franchise or share management control with others who may not meet Hilton's standards of management excellence."

Next spring sees the opening of what will probably become Hilton's London flagship hotel: the £50m Langham Hotel opposite the BBC radio studios in central London. It will face stiff competition from the refurbished Dorchester Hotel in Park Lane, which re-opens later this month, and the new Windsor Hotel, located close to Paddington railway station and owned by the US Ritz-Carlton chain, which is due to open in 1992.

### Hoteliers are beginning to appreciate that business travellers are increasingly looking for greater individuality

As more of these top class hotels open the pressure will grow on hoteliers to be even more imaginative in attracting custom.

THF, for example, has just launched a scheme to give regular business users a guaranteed room reservation if they book 48 hours in advance.

Hilton earlier this year introduced its Hilton Club for business travellers.

"Research has shown that business travellers are prepared to pay for certain guaranteed services rather than just a scheme which adds up points," says Mr Hirst. "We have recruited over 7,000 members since its launch, with each member paying a joining fee of up to $150. We are now able to build up a database of personal preferences for each member and can transfer this information to each hotel they visit."

Hoteliers are beginning to appreciate that business travellers of the 1990s are increasingly looking for greater individuality and recognition from the hotel business.

"When they go to Paris or London they want each stay to be full of the culture, history and personality of each city," says Mr Bob Davis, marketing vice-president for Inter-Continental in Europe.

"Therefore we have to make sure our hotels not only offer high standards but also reflect the society they are in," he says.

Ex-Holiday Inn executives who started up the Periquito chain earlier this year aimed at business travellers recognise this trend.

"Recent research has revealed that travellers will be seeking individuality in the 1990s, so each of our hotels will be architecturally different," says Ms Pamela Carvell, Periquito's marketing director. "We believe this factor will provide an important point of difference over many of our competitors."

Other hotel research, by Travel Trends International, found that executives across Europe rated cleanliness in hotels as the most important factor when choosing where to stay.

For both the German and UK business traveller, a reliable reservations system was the second most important factor. The French, however, rated room comfort higher.

The Lygon Arms in Broadway: has served guests for more than 450 years

COUNTRY HOUSE HOTELS

# The bandwagon slows down

WHEN Mr Carl Lewis, owner of the Crabwall Manor country house hotel on the outskirts of Chester, was researching the potential demand for small luxury hotel accommodation in the mid-1980s before opening for business he saw his guests as primarily being well-heeled leisure travellers.

Yet in the five years the hotel has been open under his ownership, the reverse has been true. Some three-quarters of his guests are staying because of business; about 55 per cent on conferences and the rest on general business travel.

What changed Mr Lewis's calculations about the nature of his clientele has been the prosperity of the north-west's business parks. "Although the business parks had already attracted companies when we opened, I am sure no one could have predicted their continued success," he says.

Crabwall Manor has attracted companies of the stature of Shell Chemicals, Marks and Spencer Financial Services, Kimberly Clark, and Toyota. Conference business predominantly comes from local companies, although a number have enticed executives from their London offices to stay as well.

The hotel has some 48 bedrooms and can accommodate up to 200 people – although the average size meeting is 20 or fewer senior executives. Over the past year, three companies have taken over the entire hotel at a cost of £12,000 per night.

Crabwall, like other small country hotels, has found that it pays to invest in a top chef and restaurant facilities. Some £500,000 has been spent on the restaurant and the chef is Mr Michael Truelove, formerly of the Boxtree, Ilkley, when it received two Michelin stars.

Even so, the hotel is concerned at the prospect of a UK recession. Bookings are marginally down in comparison with the more buoyant conditions of a year ago, with companies preferring smaller conferences with shorter lead times. "Everyone is watching their budgets carefully this year," says Mr Julian Hook, general manager.

### Small country hotels have found that it pays to invest in a top chef

"Many smaller companies have cut back as an external conference or meeting is an easy item to axe from a budget," agrees Mr Colin Heaney, conference manager for the Lygon Arms in Broadway, Worcestershire, part of the Savoy Group of hotels. "Bookings are also at shorter notice in these uncertain times," he adds.

The growth in popularity of small country house hotels in recent years – and the factor that encourages these hoteliers that the slowdown in business will only be temporary – has largely come about as a result of a disenchantment with meetings held in large, anonymous international hotels. Such hotels are considered appropriate for mass meetings of corporate or trade delegations but rather unstimulating in comparison with a remote Scottish lodge or an attractive Cotswold village.

This, at least, is the theory. The more exclusive the hotel, moreover, the better it is liked by those at the top of the corporate hierarchy and those who have the clout to decide where to stay.

Larger companies such as Unilever, for example, are more willing to continue with using such facilities in bad times. Unilever has been regularly using the Lygon Arms for over 20 years and has made bookings for next year. Ms Wendy Fitch from Unilever says that the Lygon is used regularly because "there is always such a positive response from their staff, whatever the request, which is very important when co-ordinating a conference."

Unilever is less concerned with the Lygon's investment in a new £1.3m leisure complex due to open next February, since it regards the hotel primarily as a venue for business meetings.

However, Mr Kirk Ritchie, the Lygon's managing director, believes that "as competition increases, so leisure facilities become increasingly important when bookings are made – whether or not people actually use them when they get here."

The marketing of many country house hotels used for business meetings is carried out by a number of organisations, such as the Pride of Britain or Prestige consortia.

Even holiday companies, moreover, are seeking to tap this market. Crystal Holidays' Premier Selection group of 179 country house hotels, for example, has developed several packages aimed at the business market.

"The most popular hotels for conferences are usually within two hours of the major business centres in Britain," points out Mr Simon Box, product director of Premier Selection. Many of these hotels have added leisure facilities as well as business centres to meet the growth in demand. Among Premier's portfolio of hotels on offer is Sir Bernard Ashley's new luxury hotel, Llangoed Hall, at Powys in South Wales.

### The more exclusive the hotel, the better it is liked by those at the top

The growth of the country house hotel market has been one of the most buoyant sectors of the UK market over the past decade and few hoteliers can believe the bubble has burst.

The recession, however, may help sort out those hotels which have merely sought to jump on the conference market bandwagon – providing inadequate back-up meetings facilities, for example – and leave those country houses which know how best to deal with elite corporate conferences.

**David Churchill**

The travelling female executive has some grievances

# Industry thrown into a state of confusion over equality

SHOULD the travelling woman executive be treated any differently from her male counterpart? The travel industry, it appears, cannot agree on an answer.

When fewer women travelled on business, the airlines and hotels found it relatively easy to deal with them . . . a business traveller was treated as a business traveller regardless of sex.

However, with women now representing between 20 and 30 per cent of Britain's business travellers the travel industry has been thrown into a state of confusion. Should women have the the same service and facilities or should they get special treatment?

According to the Business Woman's Travel Club which represents female jet-setters, the needs of the female business traveller do differ from those of her male counterpart.

Ms Trisha Cochrane, the club's secretary says that many members feel that hotels, for example, should provide extra security for female guests and airlines should go out of their way to treat a woman as an individual and not as an attachment to the man she happens to be seated with.

Few airlines consider that the needs of the business woman differ from those of the businessman. Virgin, British Airways and Cathay Pacific, for example, all claim to offer the same service to all passengers. Swissair, however, is not so sure that the business person exists and has recently positioned a senior female manager in its flight services department to monitor the specific needs of the business woman.

Mandarin Oriental in Hong Kong: highly rated by female executives

Some confusion exists as to whether it's considered polite to serve in-flight meals to women first. Virgin adopt the same policy of most restaurants and always serve the woman before the man. British Midland and American Airlines, on the other hand, are two of the many carriers that insist on serving the window seat first, irrespective of who's sitting in it.

A business woman is far more likely to be given special treatment on arrival. Several hotel chains have a female guest policy. Crest Hotels, for example, pamper women with the Lady Crest service, a product which is likely to continue even though 42 Crest hotels are owned by Trusthouse Forte.

Rooms for women have plenty of hanging space, soft decor and spy holes on the door. New three-star hotel chain Periquito which operates properties in Kettering, Oldham, Tunbridge Wells and Barnsley, make a point of seating solo female diners next to others if they so wish. They also insist that male waiters do not enter a female's room without first propping open the door.

Ramada, although not providing any special facilities for the female executive, train staff to develop a positive attitude to women.

Large chains such as Hilton, Holiday Inn, Sheraton and Hyatt do not automatically single women out. Holiday Inn and Hilton say their research shows that female guests do not wish to be treated differently to male guests. But the hotels will do their best to comply with any special requirements women may have.

At Hyatt's property in Dubai, for example, the management diverted all telephone calls to the switchboard following my complaints about strange telephone calls. Many Hyatt hotels have Regency Clubs – floors with rooms and lounge designed for the business travellers. According to the Business Women's Travel Club this type of secure environment is particularly popular with female travellers.

Some chains do not operate the same guest policy in all their properties, making it difficult for the businesswoman to know what sort of reception she is going to receive.

Queens Moat Houses, for example, offer special executive rooms for women in some of the flagship hotels such as the Ashford International in Kent and the Caledonian in Edinburgh.

It is impossible for the female traveller to know what's on offer without ringing every hotel prior to arrival. This is a situation many women are tired of.

Many women executives do not wish to be treated differently from male their counterparts but seek equality. However, one complaint frequently voiced is that if women want good service they have to dress for it.

Company policy in the 1990's may well dictate that male and female travellers are treated equally but it could be some time before prejudices on the shop floor are wiped out.

The Mandarin Oriental in Hong Kong was recently voted as the hotel which best serves the needs of the lone female traveller by the readers of Executive Travel magazine.

There are two assumptions that could be made as a result of this award. First, that the Asia Pacific region is more geared up to catering for the needs of women. Second, that other hotels will copy.

However, the hotel does nothing for women executives other than treat them with the same respect as male executives.

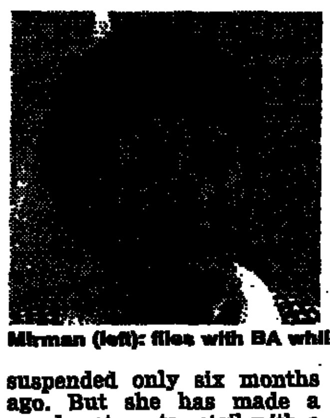
Women executives will continue to feel that they are being treated differently from their male counterparts for as long as the industry is divided in its views about women executives and what they need.

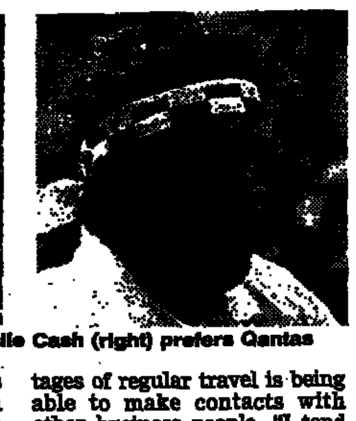
**Suzy Walton**

Voyagers' tales

# In search of a good sandwich

Conran: frequent commuter





Mirman (left): flies with BA while Cash (right) prefers Qantas

Davies: a Club Class user

EBULLIENT designer and erstwhile Storehouse chairman Sir Terence Conran devotes much flying time to his new projects at Butler's Wharf, London.

He is a frequent commuter between London and Paris and prefers London City airport for quality of service and speed of process. "I can get from the plane to the office in 16 minutes," he says. He prefers City airport's main airline, Air France, to British Airways, which he also uses frequently. "On the whole British Airways staff are good but, from a designer's point of view, Air France has the edge."

He regards airline food with a sardonic air. "I don't know why they don't just give us a good ham sandwich, or a pot of caviar. Instead we have to cope with those ghastly trays and food that appears to have been made by cuckoos – masticated and spat out," he comments. Conran believes that most business people would prefer not to eat on short-haul flights.

Sir Terence finds most aircraft cramped and uncomfortable, and is infuriated by airlines that charge high premiums on their seats.

He uses Concorde for long trips to the US, but is unimpressed. "The seats are too small and they try to make everything too grand," he says. "I usually go over on Concorde and come back on normal First Class BA, so I can sleep."

Ms Sophie Mirman, former Businesswoman of the Year, saw her Sock Shop empire crumble and its shares suspended only six months ago. But she has made a speedy return to retail with a new children's clothing outlet, Trotters, on London's King's Road. When visiting Europe, she generally flies with British Airways, because "it is more reliable than other airlines, with the exception of Swissair". The service has improved, she says.

One of her greatest dislikes is being kept waiting at the airport. "Air travellers get treated like sheep," she complains. To combat the frustration she runs a critical eye over the other retailers on the airport concourse. Ms Mirman dislikes being placed on the front row in the economy section because it is often just behind the smoking area in Club Class.

Like Sir Terence, Ms Mirman finds airline food mostly unpalatable. "Why can't they provide basic and simple food, like open sandwiches?"

For her, one of the advantages of regular travel is being able to make contacts with other business people. "I tend to see the same faces frequently and have met some interesting people with whom I have done business after travelling with them," she adds.

Pat Cash, the former men's Wimbledon tennis champion, is a seasoned traveller, with strong likes and dislikes. He travels extensively to visit his native Australia and reach far-flung tennis tournaments.

He has been travelling across the world once a week for the last 11 years. "I used to find it exciting but now I take a sleeping pill and sleep through it," says Mr Cash.

Patriotically, he prefers Australian airline Qantas International, but uses Singapore Airlines and BA. He has no time for US companies. "They are without a doubt the worst. The airlines tend to operate old, dirty and over-used planes and the airports are a nightmare."

He criticises Australian air fares for being "ridiculously expensive," but believes that, once on the plane, the business traveller gets a good service. He prefers to travel First or Business Class.

Being an active tennis player, Pat Cash says he has to eat more than the normal traveller and will therefore sample airline cuisine, but he prefers to listen to his personal stereo rather than the conversation of his neighbour.

Former Next boss Mr George Davies has been to Barcelona, Paris, Mauritius and Hong Kong in the last six weeks with his new company, George Davies Partnership. In the main he uses British Airways but finds its First Class "damned expensive", mainly using Club Class.

He always requests an aisle seat facing a blank wall in the no-smoking section. To ensure maximum comfort, he takes his own pillow on journeys.

He says that on long-haul flights "you have to eat" and will sample in-flight food with a selective eye, preferring cold cuts and salads to microwaved casserole.

Mr Davies opts out of airport executive rooms. "I can't stand them. They are claustrophobic and lack personality." Instead, he prefers to look around the shops.

**Helen Slingsby**

**Gill Upton** takes the wraps off the rip off

# The wheels of business sometimes need oiling

DOING BUSINESS abroad can be fraught with problems for the unwary as the great worldwide game of ripping off the traveller flourishes unabated.

Brushes with international chicanery are most commonly associated with taxi drivers and their ilk. One Copenhagen cabbie lost his way and drove past the same shop several times. When challenged the driver explained that it was a chain of shops that all looked the same.

Another, in Calcutta, took one innocent abroad just 500 yards to his desired destination rather than suggest a short walk. In Hanoi it's common practice to overcharge the foreigner at the airport so they pay the fares for all the locals that can squeeze themselves into the mini van taxi service to downtown. It is safe to at least half whatever price is asked.

In stark contrast, a fistful of dollars anywhere in the emerging democracies of eastern Europe will get you something approaching good service, be it hot food, a taxi or a bed for the night.

The onus is on researching before setting foot on foreign soil. Guarding a wallet in New York's Central Park is well known advice but perhaps it is not so often thought about in the cosmopolitan streets of Barcelona, Spain's second city.

A clumsy fraud such as a taxi driver pretending his meter does not work in order to extort a higher fare is resented, but somehow there is a grudging respect for the more inventive connoisseurs of the international rip off.

The labyrinth of gratuities around the world offer further confusion. It may be convention in Peking not to tip in hotels, but why do porters and room service staff hover expectantly when they have delivered breakfast or luggage to your rooms?

**A fistful of dollars anywhere in the emerging democracies of eastern Europe will get you something approaching good service**

Giving to beggars presents a moral dilemma for travellers in Third World countries. The traveller who hands out small change to the outstretched hand can expect to be surrounded instantly by other worthy recipients.

In Africa, tipping is often seen as a gift. "All rich people are expected to give gifts, and all foreigners are rich," explains Mr Mike Prager, director of marketing for Sheraton Hotels in Africa and the Indian Ocean. A gift of a tip is usually expected and six naira – a small amount for westerners – can buy a week's food for a local.

Giving baksheesh to people in the right place in Delhi, for example, will oil the wheels of business and expedite the import or export licence. Miraculously, your dusty application form will move from the pending to the action file.

Show the colour of money to political lobbyists and the green light for a building project or the rubber stamp for a joint venture may materialise.

The knack is knowing who to give the favours to. When it was business as normal in Saudi Arabia the go-between was a kafeel to help negotiate the bureaucratic maze.

In most countries patience is the order of the day. It is needed in large quantities as far away as Japan and nearer to home in disorderly Greece.

Sources of information vary; the local chamber of commerce and the departments of trade and industry issue helpful hints to exporters for most countries. Tourist boards, travel agents and even the cabin crew may provide advice.

Business contacts in the country of destination will offer help and advice to smooth the way.

The first hurdle is getting from the airport to the city centre. Find out the rate of exchange, the usual fare for the distance and which colour taxi to hop into. Generally speaking, it is best to ignore all offers of help which begin the moment you pass customs.

Corruption is rife in Mexico City. It has plagued the city for years although Mexico's energetic President Salinas is trying to tackle it. Taxis may be cheap but rates are variable. The taxi outside the hotel can cost $6 for a short ride but a standard yellow taxi cab will charge less than a third of that price.

"Many a taxi has no functioning meter and it is a good idea to ask the price as soon as you get in and knock a couple of thousand or so pesos off the figure demanded," advises frequent traveller, Mr Peter Chapman.

"It is all too easy to think it is not worth bargaining over figures which amount to very little in dollar terms, the ultimate result being that all taxi rates get pushed upwards and drivers wish only to carry higher-paying foreigners."

The author is editor of Business Traveller

BUSINESS TRAVEL 8

Specialised staff can help keep costs down, says **Gillian Upton**

# Travel managers to the fore as companies seek savings

LOOMING recession in the UK, high inflation and interest rates, general uncertainty over mid- and long-term business prospects and fuel price rises due to the Gulf crisis have all conspired to force companies to tighten their purse strings and seek savings on air travel and hotel accommodation.

Historically, British companies have been lax in spotlighting travel and entertainment expenditure as a controllable cost. Such spending is not often purchased centrally, so financial directors rarely have control of it.

However, employers are waking up to the potential savings, supported by the increasingly sophisticated management information available from travel agents through the new generation of computer reservation systems (CRS) which capture more information at point-of-sale.

Crucial to this exercise is the appointment of one person to head up all travel purchasing – thus generating more buying-muscle – who can formalise travel policy and who has enough clout within the hierarchy to ensure that it is adhered to. That message has been force-fed to employers ad nauseum over the years, but only now – in tandem with the slow recognition for the Institute of Travel Management (ITM) – is it getting through.

Some companies arrange it through a travel agency implant. Others appoint a central purchasing manager. According to an annual American Express report on business travel management, 42 per cent of companies employ a travel manager, compared with 11 per cent five years ago, while 57 per cent now have written travel policies.

For a long time, employers have been walking a tightrope between cutting costs and demotivating their top executives. Would their top salesman switch camps for a job where he could fly business instead of economy and stay in four-star hotels rather than three? Often, formal travel policies are in place but ignored; only half of those who travel ever see a copy of the travel policy, according to American Express.

Mr David Witham, director of Hogg Robinson's hotel services division, often finds several executives from one company staying at the same hotel but paying different rates. He also cites an instance of a company allowing its executives to choose from 18 New York hotels.

No meaningful savings can be made if the number of travel suppliers is not consolidated. Good rates can be offered if more business is channelled through fewer travel suppliers: the concept of the bulk discount. This is the essence of cost management.

Some companies resist for-

### Often, formal travel policies are in place, but ignored

malising travel policy because to do so would be contrary to their management style. "Basically the travellers will do what they want to do in the long run and circumvent what the policy restricts him to," says Mr David Reynolds, chief executive of the Guild of Business Travel Agents. But Mr Bill Jones, commercial director of Thomas Cook Travel Management, believes such abuse would not be widespread. "It is unusual to find massive resistance to a travel policy as most travellers are at least middle management so know how large the costs are and realise they have to be controlled."

However, it is quite common for travel managers to lack the mandate from their CEOs to police the policy. Sob stories from demotivated travel managers are common at travel management conferences.

The trend of downgrading on air travel over the last 12 months is an indication of employers' tightening their belts. "There's a lot of downgrading of flights, definitely across the North Atlantic", says Mr Alan Spence, managing director of Britannic Travel and chairman of the GBTA.

Business class used to cost 50 per cent more than economy, but now the price differential is more like ten times. The biggest price gaps are on North Atlantic routes. "We've had a general shuffling of who flies what class", admits Mr Guy Cherry, building services manager at the Chase Manhattan bank, whose travel is managed by an American Express implant. "Those who flew First are now flying Business. It's been received well. Our number of air travellers has gone up this year but our air costs have gone down, so we're pleased."

Chase Manhattan expects to spend up to £3m on air travel this year and has found airlines responsive. "We speak to airlines we use a lot and find them prepared to discuss route incentives based on volume traffic. It's a commercial world, if an airline is looking to increase market share they're more receptive", says Mr Cherry. "The more you can offer the more they can offer in return."

Route rebates are the absolute minimum a travel manager or travel agent should negotiate.

The cutbacks have also manifested themselves on the hotel front – traditionally not an area employers look to for savings, as most of the annual travel budget is soaked up by air travel. But the almost universal availability of corporate rates (10 per cent below rack rate) has spurred the increasing availability of better-than-corporate rates. Preferred rate, for example, is 20 per cent below rack rate, but is dependent on travel volume.

"We offer a corporate rate on the majority of our business hotel database and we've done it in response to customer demand," says Mr Michael Ball, director of marketing (hotels) at Utell, a worldwide hotel reservation company with 6,500 properties in 132 countries in its network.

"Some preferred rates can be as high as 50 per cent in some US hotels", says Mr Colin Rainbow, commercial director at Pickfords Business Travel, "but it depends on how that particular city is doing." For example, rates in US oil city Houston are pretty soft and, due to the Gulf crisis, hotels are cheap in Cairo and Dubai. Hong Kong rates are still soft and London hotels, devoid of high-spending Americans because of the weak dollar, are also willing to deal.

Take the example of Birmingham's relatively new five-star hotel, the Hyatt, a chain which is particularly receptive to requests for preferred rates. It has five different rates available plus a late-booking rate, which is the cheapest of all. Rack rate for a standard room is £88, rooms on its three Regency Club floors are £97, corporate Regency Club rate is £92, preferred is £68 and there is a introductory promotional rate of £66.

"Preferred rates are negotiated internationally across all our 162 hotels with all our travel partners like the mega travel agencies and consortia" says Mr John Wallis, vice-president, sales and marketing, for Hyatt International. Companies which lack buying clout should book through those travel agents whose network is large enough to buy at the best rate or who have links with overseas consortia or travel product wholesalers that give global coverage. These companies give the most competitive rates through booking millions of room nights per year. "Amex, Cook's and Hogg Robinson are booking the majority of our rooms at £66," says Mr Wallis at Hyatt.

The situation is easy for cost conscious employers to exploit, although Rainbow feels that air travel still takes priority in the minds of employers. "People are less likely to downgrade hotels as they can put up with eight hours in economy class but not a three- or four-day stay in a three-star hotel."

That view is echoed by Chase Manhattan's Mr Cherry: "We've concentrated on getting a decent rate at hotels rather than downgraded the class of hotel".

Remember: travel suppliers will not offer a better rate unless pushed.

*Gillian Upton is Editor of Business Traveller magazine*

New technology could negate the need for in-house travel agents

# Implants are uprooted

THE inexorable push for new technology in the travel business could substantially reduce the argument for companies to use a travel agency 'implant' on its premises.

To date, large companies with a high number of frequent travellers, sizeable travel budgets and demand for last minute travel arrangements have been driving this segment of the market.

All the main travel companies and high street multiple agents – including American Express, Hogg Robinson, Pickfords Travel, Thomas Cook – offer to put their staff in-house for major clients spending in excess of £750,000 per annum.

In return, a company can have the full-time use of up to 25 agency staff, thus releasing a full-time travel manager from day-to-day administration to do his/her job with a more long-term, strategic viewpoint.

But the summer of 1991 heralds the introduction of satellite ticket printers (STPs) which negates the need for companies to rely on in-house agents to print airline tickets; this technology will allow tickets to be remotely printed and issued.

It will take time before the new technology becomes widespread but it will certainly force companies to question the cost of using an implant. For while implants can save on payroll (implant staff can do the work of a travel manager rather than augment his/her work) they can also take up valuable floor space.

In particular, companies in city centre locations, paying premium rents on office space, are susceptible. Space for a travel agency implant is usually provided free of charge to the agent or, if there is a rent involved, the temptation is not to charge the going commercial rent for the space.

However, the advent of STPs will not entirely quash the role of implants, according to Thomas Cooks' commercial director, Mr Bill Jones. "As corporate buyers get used to satellite ticketing arrangements, implants will diminish but I don't think they'll ever go away.

"People still like staff to handle complex travel itineraries and there is an emotional reassurance of having someone on site. Historically, there is some merit in that, particularly with the late delivery of tickets", says Mr Jones. Conversely, the labour-saving advantages of STPs might well make implants viable for those companies with annual travel budgets much smaller than £750,000.

The other, more nebulous advantage of using an implant is that it allows those staff to better integrate with the client company culture.

"The agency becomes part of the company", asserts Mr David Reynolds, chief executive of the 42-strong Guild of Business Travel Agents (GBTA).

That view is reinforced by Pickfords Business Travel, which for the last six years has provided an implant for quality car maker Jaguar. Some 90 per cent of the company's booked travel is international, much of it at short notice, for around 450 travelling executives from the company's manufacturing and engineering, sales and marketing and finance departments.

Pickfords' implant manager Mr Gavin Motzheim believes the arrangement allows agent and company to work together more effectively. "It encourages the customer to use us properly, because they understand our service more fully."

Another strong advocate of the travel agency implant is consumer products multinational Unilever, which has had an implant in place since the early 1980s. Unilever began with a British Airways implant, but switched to Thomas Cook to embrace train and ferry travel. Thomas Cook pitched against P&O Travel for the account. Ms Vanessa Woodbine Parish, as travel and visitors bureau manager, manages the travel department with 26 Unilever staff and a dozen Thomas Cook implant employees.

A typical month will see around 1,300 travellers being processed – good reason, says Ms Parish, for keeping the implant. "Given the economies of scale, convenience is the biggest factor. It's very good news for the busy executive."

One criticism of implant staff is their low average productivity.

There is a finite amount of work within an implant – usually coming in peaks and troughs – compared with high street agency workloads which can be spread across several accounts. But Unilever's Ms Parish says that the down time of her implant staff is "pretty minimal", half of the 12 Cook's staff being full-time on business travel.

Pickfords Business Travel managing director Mr Nigel Robinson believes implants are not the panacea for all companies. "Each company has individual needs and sometimes these are better served from an off-site office. This might be in a case where a company doesn't have a constant stream of travel requirements, leaving a dedicated branch with no work, and customers where such an intimate knowledge of the business is no advantage.

"In these circumstances a dedicated implant might take up valuable client office space which might be better utilised in another way," says Mr Robinson. "Either way the business travel agent will be able to advise on the best solution."

Unilever's Ms Parish believes that there is little to choose between the services of competitors Hogg Robinson, Thomas Cook and American Express, but that placing business with one of these larger players ensures state-of-the-art technology, particularly as regards the new generation of computer reservation systems (CRSs).

**Gillian Upton**

Banks and issuers jostle for advantage

# The corporate card takes off

EVERYONE knows what a gold card is, but silver is becoming the accepted colour for business payment cards in a growing and fiercely competitive market.

Visa, MasterCard, and Thomas Cook are jostling for advantage against the acknowledged market leader, American Express.

The days when a company card was seen as a sort of perk for free-spending senior executives are over – at least as far as issuers are concerned. To them, a company card is an instrument for controlling costs and enhancing administrative efficiency. But to what extent are corporations willing to accept this message?

The new cards have to be seen against the history of the plastic card industry. Cards designed to cater for the travel and entertainment needs of business travellers have a long history. The first cards being launched in eastern Europe are basically "T & E" (travel and entertainment cards.)

In late October, for example, Zivnostenska Bank of Prague began issuing Visa cards. But these were not credit cards for the mass market but products

Trevor Humphries

**The days when a card was seen as a perk are over**

### MasterCard claims a world-wide network of 8m merchants

aimed at upmarket travellers – cards linked to convertible currency deposits, which will operate as deferred debit cards with the customer's account being debited regularly with the full balance.

How different is this sort of first generation payment card from the company cards now being launched in developed markets? Across the Czechoslovak frontier, in Germany, GZS (Gesellschaft für Zahlungs Systeme), the inter-bank organisation which dominates the German credit card market, was launching its own Silvercard, a company card with the Eurocard branding, aimed at medium-sized businesses.

MasterCard, the international brand of which Eurocard is the regional affiliate, has had its cards in the market for five years. There are about 597,400 MasterCard BusinessCard cards in the US and 533,726 in the rest of the world.

"They are for the entrepreneur and for the small business as well as for large corporations," says Mr Pete Hart, president of MasterCard International. "They offer a lot of advantages. They can be used for cash flow management and for lending. And we believe that because we have a much larger merchant network than American Express that business can use our card for procurement-type functions from suppliers, for example purchases of hardware or paper."

MasterCard claims a world wide network of 8m, compared to around 3m for Amex.

Why are card issuers and banks interested in the business traveller market, which not long ago was mainly the preserve of American Express and Diners Club?

The global travel and entertainment business is estimated to be worth around \$320bn by Visa, of which around \$120bn is generated in Europe. American Express has a slightly larger estimate of the potential. It says the European corporate card and travel market was around \$200bn in 1989, while globally the total size of the market is perhaps \$600bn.

The worldwide business traveller population is thought to be around 34m, with about 6.4m in Europe.

It is an untapped and growing market. Surprisingly, less than a quarter of business travellers hold personal payment cards and only one in ten holds a company card. Visa reckons that cash, cheques and old-fashioned direct billing still account for more than half of all business travel payments.

These facts lay behind Visa's decision earlier this year to launch a business card in its European and Middle Eastern region. The card comes with two sets of enhancement. One set includes services such as help with medical and legal referrals, travel and baggage delay insurance, document replacement, guaranteed hotel reservations and emergency messages services.

The other is a business card reporting system that will tell the home office just how company money is being spent, helping identify overdue

### Amex's ability to supply offices in large cities is an advantage

accounts, excessive spending and information about merchants which might be useful in negotiating a discount. There are also historical records of transaction activity which should show up what Visa politely describes as unusual spending patterns by individuals or departments.

The total cost of this reporting system is around \$2,000 and it can be operated on most IBM mainframes in the OS/MVS and DOS operating environments, placing it within the range of most medium-sized businesses.

American Express believes that it can retain market leadership by changing corporate attitudes – and emphasising quality service. The corporate sector is the fasting growing area of its UK card business.

"We have been putting a lot of effort into promoting not just our cards, but the need for British management to start looking seriously at the whole question of controlling the huge corporate spend on travel and entertainment services," says Mr John Petersen, General Manager of Amex Travel Management Services.

"Our expenses study showed that cashflow control in this area is tightening up, with fewer companies relying on cash advances and almost 80 per cent of firms using credit and charge cards to some degree", Mr Petersen says.

Amex is particularly conscious of the long-term potential of new markets in eastern Europe. It is working closely with major clients encouraging them to discuss plans for Europe, so that it can develop resources (for example, offices in large cities and travel guides) tailored to their needs.

Amex's ability to supply offices in large cities remains a considerable advantage compared to bank-based company cards. Thomas Cook, its main rival in the travel bureau field, still relies mainly on travellers' cheques rather than cards.

Meanwhile, there is one common problem: company travel and payment arrangements are usually not handled by the movers and shakers in a particular corporate group. Persuading businesses that a new generation of cost-efficient travel and entertainment payment cards has arrived may prove a hard slog.

**David Barchard**


Shopping in Tokyo's Ginza district

Glyn Genin

## BUSINESS CITIES: Tokyo

# Unparalleled service, but space is tight

IT MAY be the uncontested commercial and financial capital of Asia, but to the veteran business traveller, Tokyo can often seem curiously small-time.

The international airport is a single-runway outpost at least 90 minutes from downtown. Most people would not consider sitting down for a restaurant meal past 9pm, since trains do not run much beyond midnight. Few hotels offer 24-hour room service, and, until last year, the convention centre facilities were poor.

Yet in many ways, Tokyo has emerged as world-class, with 14 deluxe hotels, including the venerable Imperial and the Okura, and 45 first-class facilities, ranging from the health-faddish Hilltop to the Holiday Inn.

In a cramped city with the highest real estate values in the world, room space tends to be less generous than in most other capitals. Prices range from $200 upwards for a single room at the higher end, to under $50 for a smaller business hotel. But service is unparalleled, if somewhat mechanical and officious.

Elaborate business centres and "executive floors" are sprouting up throughout the major hotels, offering everything from conference rooms and computer work stations to paper shredders.

There are an estimated 52,000 eating places in Metropolitan Tokyo, nearly twice as many as in New York. Aside from the Japanese establishments, they range from the first La Tour D'Argent to be opened outside Paris (in the Hotel New Otani) to Swedish smorgasbord (the Stockholm restaurant in Roppongi) to Korean, Chinese and others.

The Ginza district's big department stores, complete with their Old Masters art exhibits and cinemas, make those in New York and London seem positively uninspiring.

Japan's first multipurpose convention centre, the 54,000m² Makuhari Messe, was opened in October 1989 in Chiba city, just east of Tokyo,

### Only in December and January is it easy to get a booking for a room

to help accommodate the record number of conferences being staged in the city.

Unfortunately, most travellers will have to enter the country through the New International Airport at Narita, 66km east of Tokyo.

For most visitors, taxis are out of the question – the fare from Narita to downtown can easily top $200. The best bets are the airport "limousines" (buses, in fact) that run until 11.30 pm to the centrally located Tokyo City Air Terminal, or the less-frequent buses that stop at some of the major downtown hotels. With either of these options, of course, Tokyo traffic can derail your schedule.

Taxis, with their automatic-opening doors, are plentiful and the white-gloved drivers are generally knowledgeable, which helps overcome the language barrier.

Except for veterans, most business travellers eschew the underground, which is too bad. Though crowded, it is inexpensive, reliable and relatively simple to negotiate. Most of the best hotels lie within or near the Yamanote line, which rings central Tokyo.

The east side of the Imperial Palace, in the Marunouchi-Otemachi business centre, is still the definition of prestige in Japan – no small consideration in a city where status is defined by everything from what your business card says to what you wear on your feet. The 400-room Palace Hotel, with the best views in town, is here.

Farther south, just east of Hibiya Park, is the Imperial Hotel, so exclusive an address that it politely turned away pop stars Madonna and Michael Jackson to spare its guests all the shrieking groupies.

Akasaka, south-west of the Palace, is the top-class entertainment area in a city where entertainment is more closely connected to business than in most other places. The New Otani and Capitol Tokyu, among other hotels, are situated here.

The slightly out-of-the-way but bustling West Shinjuku district, site of the world's busiest and most bewildering railway station, is also home to a concentration of first-rate hotels. For the less prestige-conscious, there are ryokans, or Japanese inns, and, for budget travellers, the many small business hotels in the Tokyo Station area.

Tipping is not expected, but service charges and tax are added to the bill.

### Nightlife is abundant, even if it ends earlier than in other cities

A recent survey by the Japan Hotel Association shows that only in December and January is it easy to get a booking in one of Tokyo's 20,000 rooms. March-May and September-November are the tightest periods, with occupancy rates at nearly 90 per cent.

Since Tokyo now has three times as many incoming travellers as it did in 1970, and prohibitive real estate prices have stymied new construction, that situation is not expected to ease much.

Many of Tokyo's best hotels are actually reducing their number of rooms. As the accommodation business becomes more competitive, hotels face constant pressure to upgrade facilities.

Where five years ago, health clubs and pools became standard features, nowadays bigger rooms, more executive suites, and business centres are becoming de rigueur. The Okura, near the US Embassy, recently opened two suites, each consisting of a bedroom and a small conference room complete with audio visual equipment and several telephones. The hotel already had 35 regular conference and banquet rooms.

On October 1, the 100-year-old Imperial inaugurated an Executive Services Centre. Among other things, it is equipped with a complimentary lounge for guests and their parties and is furnished with a wide-screen television, word processors, personal computers and typewriters, fax machines and copiers.

Secretarial, translation and interpreter services can be arranged here, as in most big hotels.

The New Otani once billed itself as the largest hotel in Japan. It still is, but now prefers to emphasise amenities. To make way for its own "executive floors", from the 12th to the 15th stories of the main building, the hotel has cut the number of rooms from over 2,000 to 1,724. It will have 1,600 next year.

Most of the business centres close at around 9pm on weekdays. But the Okura, the Imperial and the New Otani, will soon begin to offer 24-hour room service.

Since entertainment is such an essential element of business affairs, Tokyo nightlife is abundant, even if it ends earlier than in other cities.

Akasaka and the older Ginza district are at the pricier end, and the more spirited Roppongi to the south is Tokyo's only truly late-night entertainment area, complete with small ethnic restaurants, jazz bars, discos and the ubiquitous karaoke singing bars.

Other areas worth looking into are Shinjuku, with its noisy and kinetic Kabukicho red-light district, the Dogenzaka area of Shibuya and Harajuku, which is mainly a young people's haunt.

**Mark McQuillan**





## Operators are not optimistic about prospects for 1991, writes Tim Burt

# Air taxis fight to find their slot

FEARS OF a recession are threatening demand for private charter flights, the most flexible form of business travel, according to some of Britain's leading air taxi operators.

Air taxi services, which bridge the gap for companies which require their own corporate flights but which cannot afford their own aircraft, have stagnated as many businesses cut costs.

Britain's air taxi operators are not optimistic about prospects for next year.

Gama Aviation, based at Fairoaks Airport in Surrey, says expansion in the industry has come to a halt. "This year we are suffering from the squeeze on the economy. Business is not buoyant", says managing director, Mr Marwan Khalek.

### Plans for a heliport in the City of London face strong opposition

"There will be a contraction in the industry if the recession develops because charter flights are one of the first things companies go without."

Gama is one of a growing number of operators which use executive aircraft to fly business travellers anywhere in Europe. About 2,000 continental airfields are open to taxi flights. Scheduled airlines, by comparison, can only use around 200 airports.

Mr Khalek says air taxis are successful because they can offer customers the equivalent of a door-to-door service, whereas scheduled airlines are often hampered by delays and congestion.

Air charters are popular because they offer businessmen the maximum time to do what they do best – business. An air taxi will take off when the passengers want to leave, land at the airfield nearest their destination, and make the return journey when the meeting is over.

Domestic and European flights represent the bulk of air taxi business, because on long-haul routes the time saved and extra comfort provided is small compared to the first class services of international airlines.

On short-haul routes, however, air taxis can save money. The average cost of chartering a 10-seater turboprop aircraft between Paris and London is £1,800. The saving gained by flying 10 executives business class to Paris is minimal and you lose the convenience of dictating departure times.

Air taxi operators also offer helicopter services which can fly businessmen direct to the company or site they are visiting. But according to Sir Gordon Booth, a director of the Hanson Group, London is handicapped by the lack of a heliport in the City for air taxis and private operators.

### The industry opposes moves to equalise landing charges

Sir Gordon is also a director of City of London Heliport (CLH), the business group which wants to build a helicopter landing pad on an elevated deck on the River Thames close to Cannon Street railway station.

He says a new heliport is "an essential business tool" in the City's struggle to compete with other financial centres which already have such facilities. But the plan is facing strong opposition at a public inquiry.

The heliport's backers envisage a landing site which would allow businessmen to be in the air within minutes of leaving their offices. London-based executives would be able to visit a number of sites in a single day before returning to their desks in the evening.

Paris already has two heliports for business travellers, and Sir Gordon fears London will be left behind if the CLH proposals are not approved.

The heliport, its supporters say, would also offer a rapid service to airport hubs such as Heathrow and Gatwick, where businessmen would connect with fixed-wing air taxi services or scheduled airline flights.

The air taxi operators, however, fear that their ability to use London's largest airport is at risk.

Gama Aviation operates 50 per cent of its services out of Heathrow but its managing director says it is being squeezed out by international airlines.

Most of the company's flights from Heathrow do not operate on the 'go-as-you-please' timetable available to charter services at other airports. Heavy demand from airlines, which pay much larger fees to the airport, means companies such as Gama Aviation are unlikely to be granted take-off and landing slots between 8am and 8pm.

Mr Khalek says: "Ninety per cent of our business out of Heathrow is based on opportunity slots. On the day of departure we request a take-off at a certain time in case an airline misses its departure slot."

Mr Ron Gadd, director of the Airport Operators Association – the trade group representing all UK airports – believes executive aircraft should be discouraged from using Heathrow. "There is a market for business travel but they should be using peripheral airports like Biggin Hill and Farnborough.

"We would like to see market forces move the charter companies. If they paid the right price for a slot, they could have it."

Landing charges and airport fees are based on aircraft weight, passenger numbers, security costs and navigation services. A fully-laden jumbo jet is a much more lucrative proposition for an airport than a small business jet.

The air taxi companies are opposed to any moves which would equalise airport landing charges for aircraft of different types.

The companies say their business is also being threatened by illegal charter flights operated by so-called 'cowboy' pilots. The General Aviation Manufacturers' and Traders' Association (Gamata), which represents Britain's air taxi companies, says an increasing number of businessmen are being offered flights with unlicensed operators.

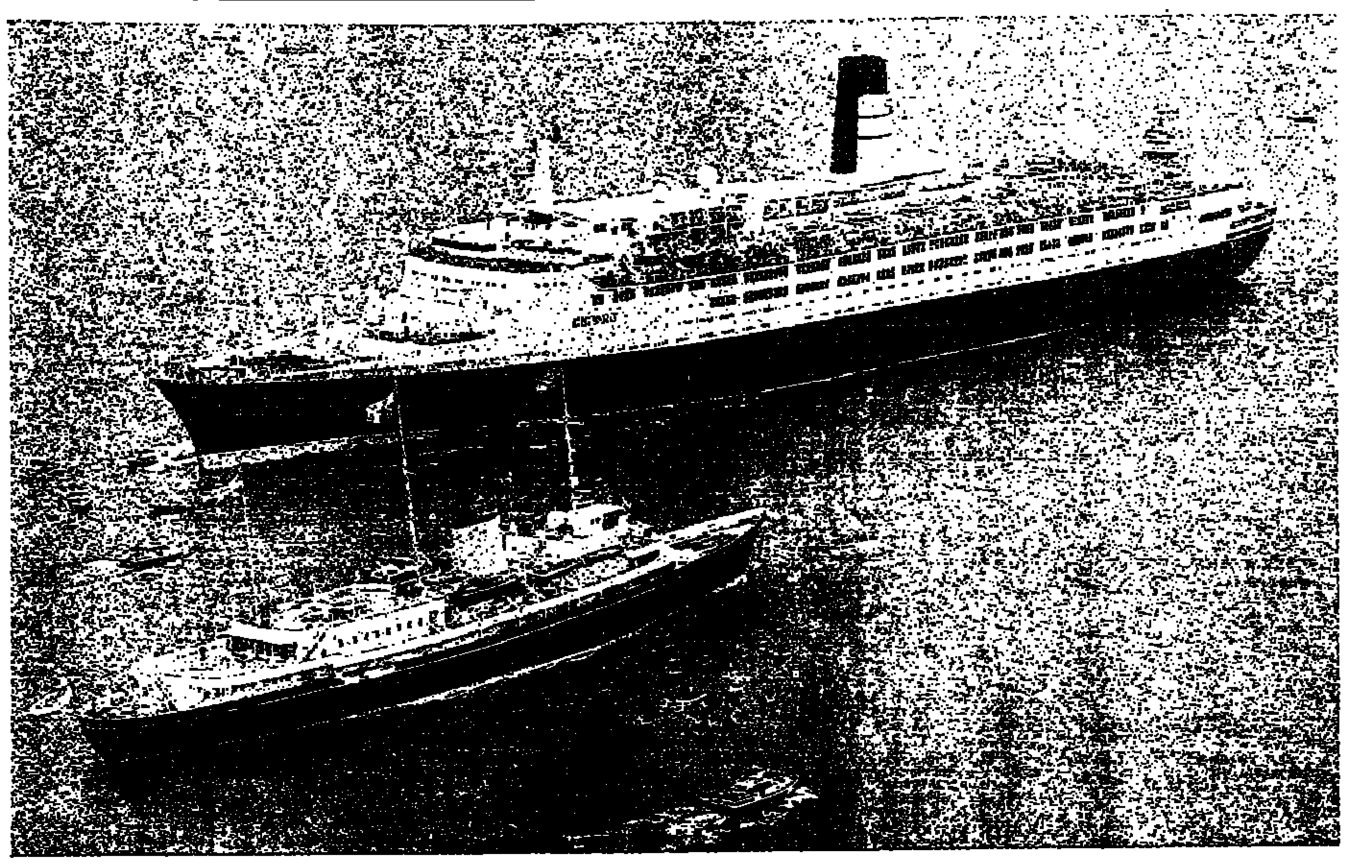
Gamata and the Civil Aviation Authority recently urged businessmen to check for an Air Operator's Certificate before chartering an aircraft. Insurance is invalidated if the pilot or air charter company does not carry an AOC.

### Air taxi services have stagnated as businesses cut costs

● A list of licensed carriers operating air taxis is available from the Air Transport Operators' Association: ATAO, Clembro House, Weydown Road, Haslemere, Surrey GU27 2QE.

Much of London-based Aeromega Helicopters' work is executive transport

Glyn Genin



The last word in luxury: some companies have held business seminars aboard the Queen Elizabeth 2 (seen above with the Royal Yacht Britannia), while others have used the Cunard luxury liner to organise floating sales promotions for new launches or reward their corporate high-flyers with all expenses paid cruises.

Although the 67,000 ton, 1,700 berth QE2 has occasionally been chartered for conference and incentive organisers, most business groups tend to be between 50-100 people, staying on board for between two and five days.

The QE2 has direct dial satellite telephones, viewdata world and business news in each cabin, radio fax, telex and a computer centre for passenger use.

For relaxation, passengers can make use of the ship's four restaurants, 11 bars, four swimming pools, two gyms and 500-seat theatre.

Chrysler hired the QE2 for a 10-day truip to mark the US bicentennial; more recently, a group of young professionals cruised to Lisbon and the Atlantic islands while being lectured by business luminaries.

**Photograph by Glyn Genin**

**David Churchill** reflects on a tough year for car rental

# Emphasis shifts to service

IT HAS been a tough year for car rental companies. High interest rates, a weak used car market and cost pressures on companies have forced several small to medium sized rental companies out of business. Moreover, in spite of the intensely competitive market that such a scenario produces,the majors have been forced to push prices up by between 20 and 30 per cent over the past year.

"The past 12 months have been difficult for the whole car rental industry," confirms Mr Aidan O'Kelly, general manager of Hertz UK.

Mr Keith Dyer, managing director of Avis in the UK, agrees. He points out that high interest rates have hit the industry in two ways.

"Initially, the impact on consumer disposable income affected demand and subsequently the value of the used car market, with the resultant decline in profitability.

"While volume for rental was unaffected at the outset of high interest rates, their prolonged effect has created a softening in the private leisure sector during 1990 and more latterly a slowing of growth in the corporate sector."

Whether the going will get even tougher for car rental operators over the next year depends largely on how far they can persuade companies that rental is necessary for the executive traveller. Mr Andrew Jebson, marketing director for Budget, believes that some companies may find rental a cheaper alternative to providing company cars, but points out that "reaching the business traveller is all about providing the right level of service where the executive wants to be."

Mr Dyer from Avis adds that car rental operators will have to focus their activities to meet new market conditions. "Our focus will be on better quality service for the customer, from escorting clients to their cars to explaining the controls and providing directions for their onward journey", he says.

Europcar is also pursuing higher service levels. It has launched a campaign to end confusing price structures, complicated booking systems, and public perception of inconsistent service. Mr Tim Eaves, Europcar's UK sales and marketing director, points out that estimates suggest that the industry is losing millions of pounds through incorrect billings. Too many transactions, it seems, either end up in apologies from the operator concerned or, at the very least, costly and time consuming paperwork for booking staff.

"We need to get around these serious pitfalls by providing a product that is easy to understand with a price and service that as an industry we can all guarantee", he explains."We need to emphasise that car rental represents very good value for money: for the cost of hiring a dinner jacket, for example, you can go out and drive away £10,000 worth of motor car."

Car rental, however, often lacks the glamour associated with airlines and hotels and the fleet operators are well aware that business travellers can be fairly fickle about which renter they choose.

## Car rental lacks the glamour of airlines and hotels

Recent research into business renters, moreover, suggests that three-quarters of travelling executives make their own rental arrangements. Only one in every 20 business rentals was booked by a specialist company travel manager.

Not every travelling executive, of course, has the complete freedom to choose which rental agency to use – that often depends on deals already negotiated at corporate level. But it is perhaps a sign of the importance that business travellers attach to convenience that they are willing to buck the system if it means getting a rental car more easily.

The problem with car rental, however, is that attempts to improve service levels – however laudatory at head office level – often fail to filter down to the grass roots.

A recent survey by Executive Travel magazine tested the service offered by eight operators at Heathrow's Terminal 2. "The variation, both in prices quoted and the levels of service provided was enormous, our survey shows," the magazine says. "Not only was there a wide diversity of tariffs from company to company, but also a bewildering array within individual concerns."

The test team, seeking to hire a Ford Sierra or similar group C car, were offered quotes ranging from £35.01 from the Thrifty rental off airport, to £100.45 with Avis on airport. "Hertz (on airport) appears to have so many rates for different categories of customer, that even the reservations staff had difficulty in coping," the magazine adds.

But the Executive Travel researchers found little to choose between the companies in the service they offered: "In most cases it lacked polish and there were delays either in reaching the depot or queuing for attention."

While such tests obviously have flaws, they do illustrate that travellers still find most often car rental a bit of jungle, especially at Heathrow – the UK's biggest car rental location, handling some 15m customers a year.

The problem may get even more confusing when the BAA (formerly the British Airports Authority, which runs Heathrow) allows eight car rental companies to operate within the terminals, compared with four at present.

If Heathrow is confusing to the business traveller, hiring a car in eastern Europe has been a nightmare for many in the past. Yet the opening up of business ties with eastern Europe has been quickly followed by car rental companies. Avis, for example, recently signed exclusive licence agreements with rental agencies in Hungary, Czechoslovakia, and Bulgaria.

Avis says that although it has had co-operative agreements with eastern Europe rental agencies since 1975, these deals did not allow it any control over the way the agencies operated. The new agreements mean that licensees have to confirm to Avis operating standards.

The move by Avis and others into eastern Europe reflects the greater 'Europeanisation' of the car rental business: business rentals are estimated to account for two-thirds of the total European car and van rental market, worth about £2.4bn a year. Small wonder, then, that the major players remain so fiercely competitive for a share of this market.